



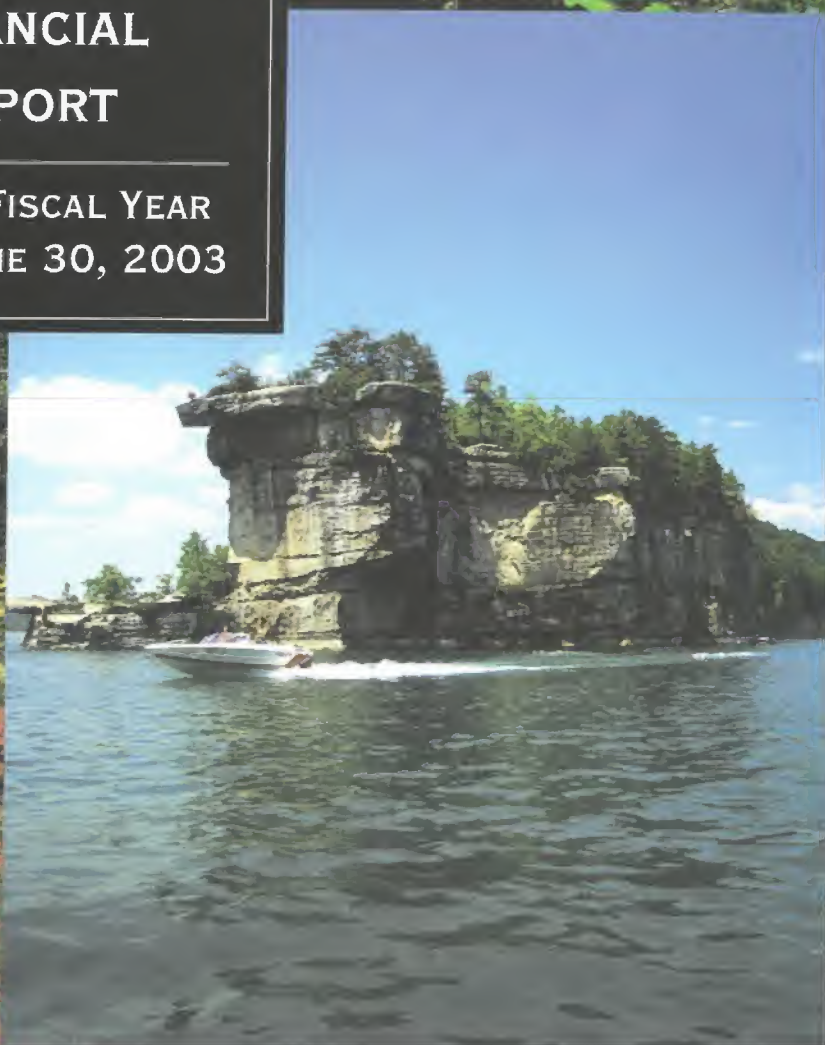
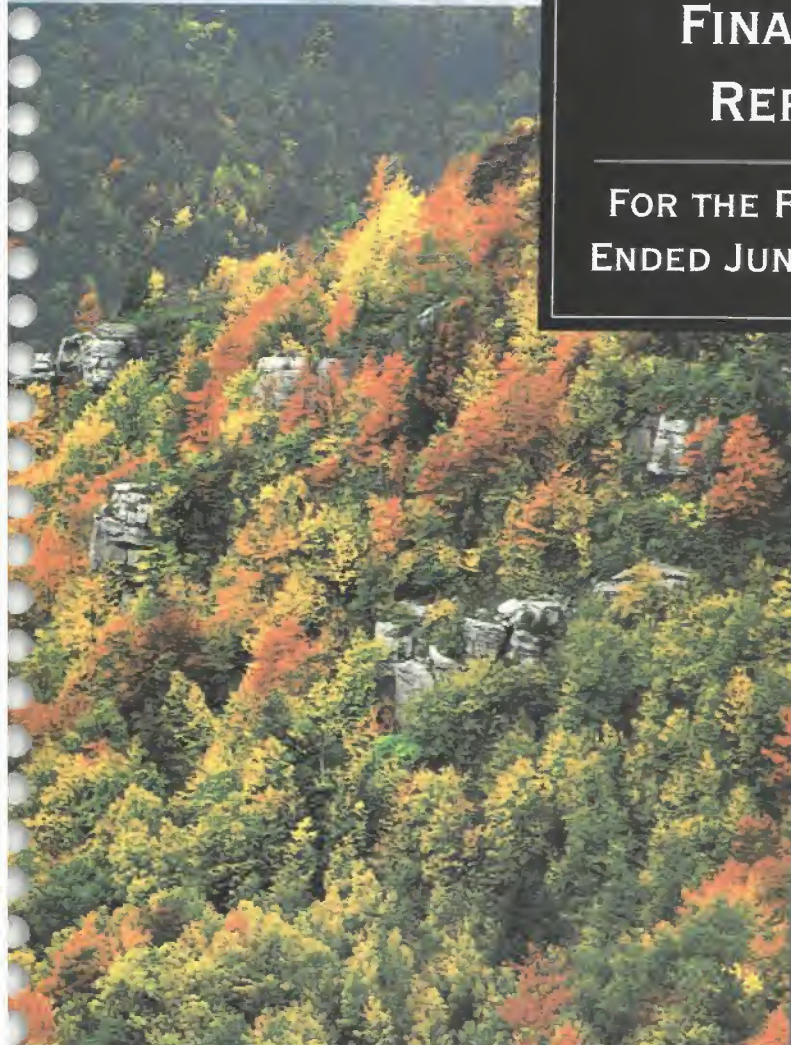
**WEST VIRGINIA**

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**COMPREHENSIVE  
ANNUAL  
FINANCIAL  
REPORT**

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**FOR THE FISCAL YEAR  
ENDED JUNE 30, 2003**





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# *West Virginia*

## *Comprehensive Annual Financial Report For the Fiscal Year Ended June 30, 2003*

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***Bob Wise***  
*Governor*

***Tom Susman***  
*Acting Cabinet Secretary*  
*Department of Administration*

***Andrew J. Fizer, CPA***  
*State Comptroller*  
*Department of Administration*

*Prepared by the  
Financial Accounting  
and Reporting Section*

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*Governor Bob Wise*

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STATE OF WEST VIRGINIA  
**OFFICE OF THE GOVERNOR**  
CHARLESTON 25305

BOB WISE  
GOVERNOR

To the Honorable Members of the Legislature  
And the Citizens of West Virginia

I am pleased to provide you with the State of West Virginia Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2003. An independent certified public accounting firm has audited the basic financial statements contained in this report.

The CAFR demonstrates West Virginia's commitment to financial accountability and national standards. This document provides the Legislature and the citizens of West Virginia with the state's financial data. It can be accessed on the Internet at [www.wvfinance.state.wv.us](http://www.wvfinance.state.wv.us).

This report was compiled with the help of individuals throughout state government. Each state agency provided clear, concise information to ensure the highest level of financial accountability.

Very truly yours,

A handwritten signature in blue ink that reads "Bob Wise". The signature is stylized, with the first letters of the first and last names being large and prominent.

Bob Wise  
Governor

BW/lc



# ***ACKNOWLEDGMENTS***

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## **Report prepared by:**

West Virginia Department of Administration  
Finance Division  
Financial Accounting and Reporting Section  
2101 Washington Street, East  
Building 17, 3rd Floor  
Charleston, West Virginia 25305  
(304) 558-4083

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Jane Shinn  
Sheila Straley  
Deborah Tinch

Special appreciation is given to all personnel throughout the State whose extra effort to contribute accurate, timely financial data for their agencies made this report possible. The technical support of Information Services and Communications has been invaluable. Thanks to the Division of Tourism for their pictorial and technical assistance.

We invite you to visit our web site: [www.wvfinance.state.wv.us](http://www.wvfinance.state.wv.us)

**STATE OF WEST VIRGINIA**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

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# **Introductory Section**

**Transmittal Letter**

**Certificate of  
Achievement  
for Excellence in  
Financial Reporting**

**Organization Chart  
Principal Officials**





STATE OF WEST VIRGINIA  
DEPARTMENT OF ADMINISTRATION  
DIVISION OF FINANCE

BOB WISE  
GOVERNOR

TOM SUSMAN  
ACTING CABINET SECRETARY

February 12, 2004

The Honorable Bob Wise, Governor  
The Honorable Members of the West Virginia Legislature  
The Citizens of West Virginia

It is my pleasure to submit to you the Comprehensive Annual Financial Report (CAFR) of the State of West Virginia for the fiscal year ended June 30, 2003. This report has been prepared by the Financial Accounting and Reporting Section within the Division of Finance of the Department of Administration.

The CAFR has been prepared in conformity with the reporting model outlined by the Governmental Accounting Standards Board (GASB) Statements No. 34 and No. 35. The objective of this reporting model is to provide a clear picture of the government as a single, unified entity as well as providing traditional fund-based financial statements.

This report is presented in three sections: introductory, financial, and statistical. The introductory section includes this transmittal letter, the 2002 Certificate of Achievement for Excellence in Financial Reporting, the State's organizational chart, and a list of principal officials. The financial section includes Management's Discussion and Analysis, Government-wide Financial Statements, Fund Financial Statements for Governmental Funds, Proprietary Funds, Fiduciary Funds, and financial statements for Component Units. The financial section also includes the notes to the financial statements and required supplementary information, as well as the report of the independent auditors on the basic financial statements and schedules. The statistical section includes selected financial and demographic information generally presented on a multiyear basis.

This report consists of management's representations concerning the finances of the State of West Virginia. Consequently, management assumes full responsibility for the completeness and reliability of all the information presented in this report. To provide a reasonable basis for making these representations, management of the State has established a comprehensive internal control framework that is designed to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the State's financial statements in conformity with accounting principles generally accepted in the United States. Because the cost of internal controls should not outweigh their benefits, the State's comprehensive framework of internal controls has been

designed to provide reasonable, rather than absolute, assurance that the financial statements are free from material misstatements. As management, we assert that to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The State of West Virginia's financial statements have been audited by Ernst & Young. The independent auditor concluded, based upon their audit and the reports of other auditors, there was a reasonable basis for rendering an unqualified opinion. The State of West Virginia's financial statements for the fiscal year ended June 30, 2003, are fairly presented in conformity with accounting principles generally accepted in the United States (GAAP). The independent auditor's report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the State of West Virginia is part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance in accordance with OMB Circular A-133. These reports are available in the State of West Virginia's separately issued Single Audit Report.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The State's MD&A can be found immediately following the report of the independent auditors.

## **Profile of the Government**

The State of West Virginia provides a full range of services including: education, social and health services, transportation, public safety, conservation of natural resources, and economic development. In addition to general government activities, this report includes various component units that are financially accountable to the State, or for which the nature and significance of their relationship with the State are such that their exclusion would cause this report to be misleading or incomplete. The criteria used to determine financial accountability of a particular entity are the appointment by a State official of a voting majority of the entity's governing body and (1) the ability of the State to impose its will on that entity or (2) the potential for the entity to provide specific financial benefits to or impose specific financial burdens on the State. See Note 1 (Summary of Significant Accounting Policies) for a comprehensive discussion of the criteria used in determining the State's financial reporting entity.



Budgetary control is maintained through legislative appropriations and the Executive Branch quarterly allotment process. Agencies submit budgetary requests to the Department of Administration. The Department of Administration compiles the Executive Budget on behalf of the Governor who submits it to the Legislature. After the approval of the budget, the Department of Administration maintains control over the spending patterns of the State at the activity level and by use of the quarterly allotments. The State Auditor exercises control over spending at the annual appropriation level. All appropriations, except funds which are reappropriated, expire 31 days after fiscal year-end.

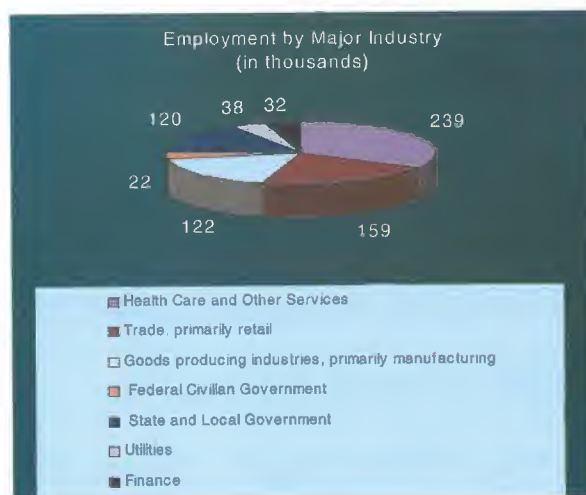
### Economic Conditions and Outlook

West Virginia's long-term growth depends in part on the national economy. Twenty years ago the West Virginia economy was driven by coal mining, forestry, and petroleum. Today the State's economy is dominated by service industries while the goods producing sector, which includes manufacturing, construction, and mining, represents 17% of all employment. The following chart depicts employment by industry at June 30, 2003.

Employment by Major Industry (in thousands).

	<u>2001</u>	<u>2002</u>	<u>2003</u>
Health Care and Other Services	233	236	239
Trade, Primarily Retail	162	159	159
Goods Producing Industries, Primarily Manufacturing	134	126	122
Government:			
Federal Civilian	22	22	22
State and Local	119	120	120
Utilities	36	37	38
Finance	<u>30</u>	<u>31</u>	<u>32</u>
Total	<u>736</u>	<u>731</u>	<u>732</u>

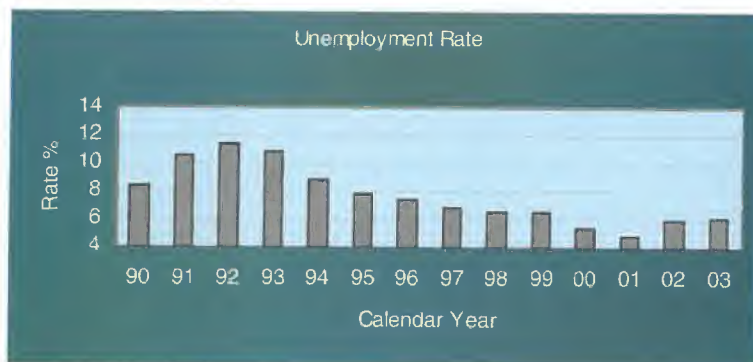
Source: West Virginia Economic Outlook 2002, 2003 and 2004 published by the Bureau of Business & Economic Research of West Virginia University



The West Virginia economy is now less dependent on one or two major industries. Because of this diversity across industries, its job growth rate of .7% during the 1997-2002 period lagged slightly behind the national rate of job growth of 1.2%.

The following charts illustrate trends in West Virginia's economy:

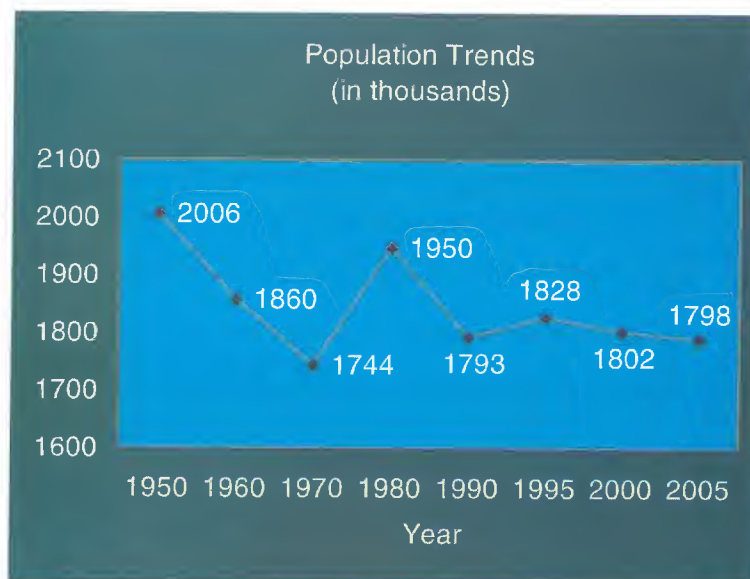
While nearly all sectors of the state economy are not performing as well as they did during the last half of the 1990's, several sectors have continued to add jobs, although at a slower rate. The leisure and hospitality sector, as well as financial activities, have consistently continued to add jobs. The health care and other services sector has continued to grow during the last two years, with health care driving the increases.



#### Population Trends (in thousands)

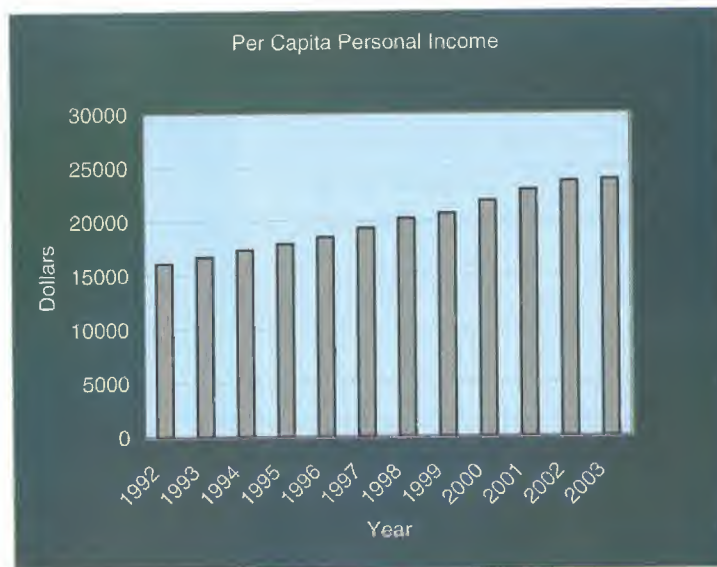
1950	2,006	
1960	1,860	<7.3>%
1970	1,744	<6.2>%
1980	1,950	11.8%
1990	1,793	<8.1>%
1995	1,828	2.0%
2000	1,802	<1.4>%
2005	1,798	<0.2>%

Source: West Virginia Economic Outlook 2004, 2003, 2002 and 2001 published by the Bureau of Business & Economic Research of West Virginia University.



West Virginia's population stabilized at about 1.8 million, as our negative natural increase (births minus deaths) was balanced by a small net migration into the State.

Real per capita personal income growth for 2003 was 1.8% and is forecast to grow 1.8% annually between 2004 and 2008.



West Virginia's real personal income remains well below the national average, but even on an inflation-adjusted basis, the State continues to gradually improve its standard of living. The State's real per capital personal income has gradually risen since the mid-1980's, even though it remains well below the national average. As of 2002, West Virginia's per capita personal income was \$23,628 (before adjusting for inflation), which was 23.4 % below the national level of \$30,832. However, the State has made progress during the last two years in closing the gap with the national economy. The gap is now at its lowest level since 1995.

According to the Bureau of Business & Economic Research (BBER) at West Virginia University, continued growth is expected in employment. That growth is fueled by the service sector. This continued positive economic performance is expected to result in a moderate real personal income growth. BBER forecasts that growth in real personal income will continue at an average 1.8% per year over the next five years, but at a slightly slower rate than the national forecast of 2.6%.

## **Certificate of Achievement**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State of West Virginia for its Comprehensive Annual Financial Report (CAFR) for the fiscal years ended June 30, 1995 through 2002. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to Certificate of Achievement Program requirements, and we are submitting it to the GFOA. Other State entities that have been awarded the Certificate of Achievement include BRIM, PEIA, the Department of Transportation, the Housing Development Fund, the Parkways, Economic Development and Tourism Authority, the West Virginia Lottery, and the West Virginia Prepaid College Plan.

## **Acknowledgments**

The annual budget document, prepared by the Department of Administration's Finance Division, provides additional information related to budget priorities and goals, including acknowledgment of significant accomplishments of various agency programs. The budget document has received the GFOA's Award for Distinguished Budget Presentation Program for the fiscal years 1997 through 2002 budgets.

The CAFR is an example of the Governor's unwavering belief in and commitment to the State's financial accountability. Acknowledgment is given to the Legislature and its leadership for their commitment to sound budgeting and to meeting the financial obligations of the State.

This report would not be possible without the support of all West Virginia State agencies which provide financial data prepared in conformity with GAAP on a timely basis. The State's continued success directly depends upon their cooperation and support.

Sincerely,



Andrew Fizer, CPA  
State Comptroller



# Certificate of Achievement for Excellence in Financial Reporting

Presented to

State of West Virginia

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2002

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



A handwritten signature in dark ink, appearing to read "Edward Haney".

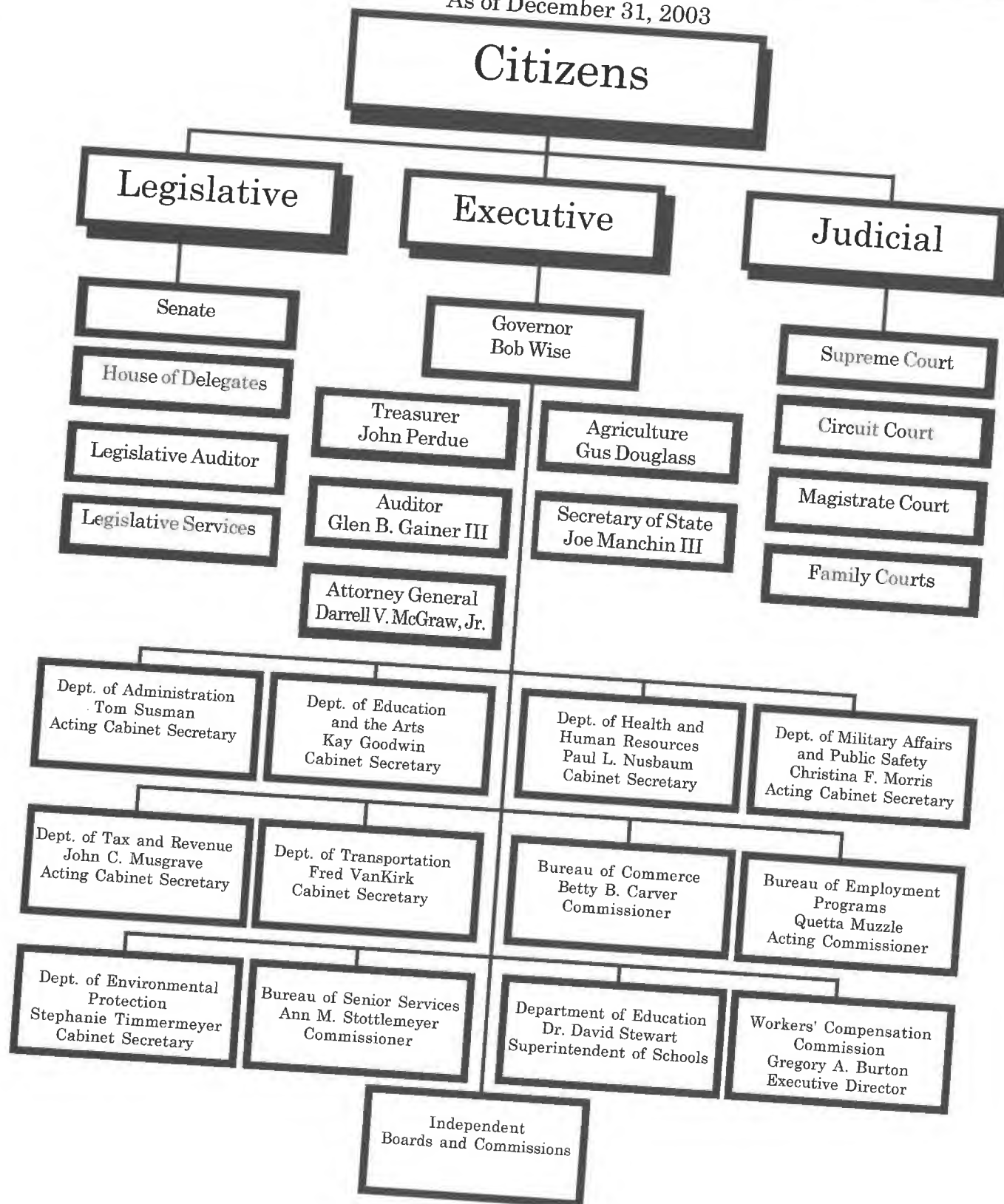
President

A handwritten signature in dark ink, appearing to read "Jeffrey R. Emer".

Executive Director

# West Virginia

Organization Chart  
As of December 31, 2003



# State of WEST VIRGINIA

## Principal Officials

### Executive Branch

Governor  
Bob Wise

Agriculture  
Commissioner  
Gus Douglass

Attorney General  
Darrell V. McGraw, Jr.

State Auditor  
Glen B. Gainer III

Secretary of State  
Joe Manchin III

State Treasurer  
John Perdue

### Legislative Branch

President of the Senate  
Earl Ray Tomblin

Speaker of the House  
Robert S. Kiss

Chairman  
Senate Finance  
Walt Helmick

Chairman  
House Finance  
Harold K. Michael

### Judicial Branch

Supreme Court  
Chief Justice  
Larry V. Starcher

Supreme Court Justice  
Joseph P. Albright

Supreme Court Justice  
Robin Jean Davis

Supreme Court Justice  
Elliott E. Maynard

Supreme Court Justice  
Warren R. McGraw

# **Financial Section**

**Report of  
Independent  
Auditors**

**Management's  
Discussion and  
Analysis**





## Report of Independent Auditors

To the Honorable Bob Wise, Governor  
of the State of West Virginia

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of West Virginia (the State) as of and for the year ended June 30, 2003, which collectively comprise the State's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of certain entities within the governmental activities, the business-type activities, the aggregate discretely presented component units, the major funds and the aggregate remaining fund information, which represent 77 percent of total assets and 29 percent of total revenues for the governmental activities, 86 percent of total assets and 79 percent of total revenues for the business-type activities, 72 percent of total assets and 86 percent of total revenues for the aggregate discretely presented component units, 100 percent of total assets and 100 percent of total revenues of the following major funds-Transportation, West Virginia Infrastructure and Jobs Development Council, West Virginia Lottery, Water Pollution, Workers' Compensation, and Employment Security, and 11 percent of total assets and 32 percent of the total revenues/additions for the aggregate remaining fund information respectively. Those financial statements were audited by other auditors whose reports thereon have been furnished to us. The report of other auditors for the Workers' Compensation major fund included an explanatory paragraph for the reasons discussed in Notes 14 and 15 in the accompanying financial statements. Our opinion, insofar as it relates to the amounts included for certain entities within the governmental activities, business-type activities, aggregate discretely presented component units, certain major funds and certain entities within the aggregate remaining fund information, is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of West Virginia as of June 30, 2003, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States.

As discussed in Note 14 in the accompanying financial statements, the West Virginia Legislature enacted legislation, which made significant changes to the West Virginia State Code relating to the Workers' Compensation major fund in order to address the issues that have resulted in the significant deficits in recent years. Also, as discussed in Note 15 in the accompanying financial statements, there is pending litigation regarding certain provisions of Senate Bill 2013. If the Workers' Compensation major fund loses this litigation, in the opinion of other auditors, it will have a material negative impact on the financial condition of the Workers' Compensation major fund.

The management's discussion and analysis on pages 4 through 17, the budgetary comparison information on pages 126 through 133, and pension plans schedule of funding progress on pages 134 to 135 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State of West Virginia's basic financial statements. The combining financial statements and schedules on pages 138 through 177 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining financial statements and schedules have been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of other auditors, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, accordingly, we express no opinion on them.

*Ernst & Young LLP*

February 9, 2004

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the State of West Virginia's Comprehensive Annual Financial Report presents management's discussion and analysis of the State's financial performance during the fiscal year ended June 30, 2003. Please read it in conjunction with the transmittal letter in the Introductory Section of this report and the State's financial statements, which follow this section.

### FINANCIAL HIGHLIGHTS

#### **Government-wide:**

The assets of the primary government exceeded its liabilities at the close of the fiscal year by \$3.7 billion (reported as "net assets"). Governmental activities reported \$6.1 billion in net assets (a \$736 million increase, up 13.6% from last year), while the business-type activities reported a deficit of \$2.4 billion, an increase of \$623 million in the deficit.

#### **Fund Level:**

For fiscal year 2003, the governmental funds reported a combined ending fund balance of \$1.8 billion, an increase of \$138 million or 8.5% in comparison with the restated prior year.

At the end of June 30, 2003, the unreserved and the reserved fund balance for the general fund was \$313 million or 5.2% and \$316.6 million or 5.3% of total general fund expenditures.

#### **Long-Term Obligations:**

The net decrease in the State's long-term obligations was \$5 million. This decrease includes bond and lease principal payments of \$108 million, offset by new debt issues of \$98 million. Significant changes in the obligation included a decline in compensated absences of \$33 million and an increase in the net pension obligation of \$33 million.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the State of West Virginia's basic financial statements. The basic financial statements include: the government-wide financial statements, fund financial statements, and notes to the financial statements.

The basic financial statements include two kinds of statements that present different views of the State. The statement of net assets and the related statement of activities are *government-wide financial statements* that provide both long-term and short-term



information about the State's overall financial status. The remaining statements are *fund* financial statements that focus on *individual* parts of the State's government, reporting the State's operations in *more* detail than the government-wide statements. The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that presents budgetary comparisons as required by the Governmental Accounting Standards Board. In addition to these required elements, we have included a combining financial statements and schedules section that provides details about our nonmajor governmental funds, proprietary funds, fiduciary funds and component units, each of which are added together and presented in single columns in the basic financial statements.

### **Government-wide Statements (Reporting the State as a Whole)**

The Statement of Net Assets and the Statement of Activities together comprise the government-wide statements, which report information about the State as a whole using the full accrual basis of accounting similar to those used by private-sector companies. This means all revenues and expenses are recognized regardless of whether cash has been received or paid, and all assets and liabilities, including capital assets and long-term debt, are reported at the entity level.

The government-wide statements report the State's *net assets* – the difference between total assets and total liabilities – and how they have changed from the prior year. In evaluating the State's overall condition additional nonfinancial factors should be considered, such as the State's economic outlook, changes in its demographics, and the condition of its capital assets, including infrastructure.

The activities on the government-wide financial statements are divided into three categories:

- *Governmental activities* – Most of the State's basic services are included under these activities, such as education, health and human resources, military affairs and public safety, judicial, and administration. Personal income taxes and consumer sales taxes finance most of these activities.

- *Business-type activities* – The State charges fees to customers to help it cover all or a significant portion of the costs of certain services it provides. The Workers' Compensation Fund, Public Employees' Insurance Agency, and the Board of Risk and Insurance Management, among other funds, are examples of these activities.
- *Component units* – The State includes several other entities in its report, for which it is financially accountable - such as West Virginia Housing Development, Parkways, Economic Development and Tourism Authority and Higher Education. Separately issued financial statements are also available for these component units.

### **Fund Financial Statements**

The fund financial statements provide more detailed information about the State's *major funds*, not the State as a whole. Funds are accounting devices that the State uses to track specific sources of funding and spending for particular purposes. Certain funds are required by the West Virginia Constitution and others are required by bond covenants. The State Legislature establishes other funds to control and manage money for particular purposes or to show certain taxes and grants are used properly.

The State has three kinds of funds:

- *Governmental funds* – Most of the State's basic services are included in governmental funds, which focus on (1) *cash and other financial assets* that may readily be converted to cash flow in and out and (2) the balances left at year-end available for spending. Consequently, the governmental funds statements provide a detailed *short-term* view to help determine whether there are more or fewer financial resources that may be spent in the near future to finance the State's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information on the pages immediately following each statement, explaining the relationship (or differences) between them and the government-wide statements.
- *Proprietary funds* – Proprietary funds include enterprise funds and internal service funds. They account for state activities that are operated in a manner similar to private-sector businesses. Like the

government-wide statements, proprietary fund statements are presented using the accrual basis of accounting and provide both long- and short-term financial information. Services for which the State charges external customers a fee are generally reported in enterprise funds. Activities, where customers are mostly other State agencies are accounted for in internal service funds. The internal service funds are consolidated with the governmental activities on the government-wide statements because they predominantly benefit the governmental rather than business-type activities.

- *Fiduciary funds* – Fiduciary funds account for assets held for the benefit of parties outside of state government. The State is the trustee, or *fiduciary*, for its employees' pension plans and other assets that, because of a trust arrangement, can be used only for the trust beneficiaries. The State is responsible for ensuring the assets reported in these funds are used for their intended purposes. All of the State's fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. These funds are excluded from the State's government-wide financial statements because the State cannot use these assets to finance its operations.

## Reconciliation Between Government-wide and Fund Statements

The financial statements contain schedules that reconcile the differences between the government-wide financial statements (long-term focus, accrual accounting) and the fund financial statements (short-term focus, modified accrual accounting). The following summarizes the primary differences between modified accrual-to-accrual accounting:

- Capital assets and long-term debt are included on the government-wide statements but are not reported on the governmental fund statements.
- Capital outlay spending results in expenditures on the governmental fund statements; however, on the statement of activities, the cost of capital assets is allocated over their useful lives as depreciation expense. The excess of capital outlay over depreciation expense is included on the government-wide statement of activities.



- Repayment of long-term debt is reported as an expenditure in the governmental funds, but the repayment reduces the long-term liabilities on the government-wide statement of net assets.
- Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities and net revenue of the internal service funds are reported with governmental activities on the government-wide statements.
- Certain tax revenues that are earned, but not available, are reported as revenue on the government-wide statements but are deferred revenue on the governmental fund statements.
- Some revenues and expenses reported in the statement of activities do not provide or require the use of current financial resources and, therefore, are not reported as revenues and expenditures in the funds.

### **Notes to the Financial Statements**

The notes provide additional schedules and information that are essential to a complete understanding of the financial statements. The notes apply to both the government-wide financial statements and the fund financial statements.

### **Required Supplementary Information**

Following the Basic Financial Statements are required supplementary information related to budgetary comparison schedules for governmental funds with legally adopted budgets and a schedule of funding progress for pension plans along with notes with explanatory information.

### **Combining Financial Statements and Schedules**

The combining financial statements and schedules include combining statements for the State's nonmajor governmental, proprietary, and fiduciary funds and nonmajor discretely presented component units.

### **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

The State's *combined* net assets (governmental and business-type) decreased \$207 million over the course of this fiscal year's operations. The net assets of the governmental activities increased \$736 million or 13.6% and business-type activities had a decrease of \$623 million or 34%.

**Net Assets as of June 30**  
**(Expressed in Thousands)**

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total Primary Government</b>	
	<b>2003</b>	<b>2002 Revised</b>	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002 Revised</b>
Current and Other Assets	\$2,511,149	\$2,413,136	\$ 2,383,644	\$ 2,483,350	\$ 4,894,793	\$ 4,896,486
Capital Assets	<u>6,733,915</u>	<u>6,476,696</u>	<u>10,900</u>	<u>10,168</u>	<u>6,744,815</u>	<u>6,486,864</u>
Total Assets	<u>9,245,064</u>	<u>8,889,832</u>	<u>2,394,544</u>	<u>2,493,518</u>	<u>11,639,608</u>	<u>11,383,350</u>
Current and Other Liabilities	841,151	890,277	975,860	979,884	1,817,011	1,870,161
Long-Term Liabilities	<u>2,269,238</u>	<u>2,280,338</u>	<u>3,854,952</u>	<u>3,327,185</u>	<u>6,124,190</u>	<u>5,607,523</u>
Total Liabilities	<u>3,110,389</u>	<u>3,170,615</u>	<u>4,830,812</u>	<u>4,307,069</u>	<u>7,941,201</u>	<u>7,477,684</u>
Net Assets:						
Invested in Capital Assets, Net of Related Debt	5,910,605	5,745,489	10,900	10,169	5,921,505	5,755,658
Restricted	772,580	523,238	809,685	821,418	1,582,265	1,344,656
Unrestricted (Deficit)	<u>(548,510)</u>	<u>(549,510)</u>	<u>(3,256,853)</u>	<u>(2,645,138)</u>	<u>(3,805,363)</u>	<u>(3,194,648)</u>
Total Net Assets (Deficit)	<u>\$6,134,675</u>	<u>\$5,719,217</u>	<u>\$(2,436,268)</u>	<u>\$(1,813,551)</u>	<u>\$ 3,698,407</u>	<u>\$ 3,905,666</u>

## Net Assets

The largest component of the State's net assets is the amount invested in capital assets (e.g., land, buildings, equipment, infrastructure, and others), less any related debt outstanding needed to acquire or construct the assets. Capital assets are used to provide services to citizens; therefore, they are not available for future spending or to pay off their related liabilities. As of June 30, 2003, unrestricted net assets are in a deficit position of \$3.8 billion. This deficit is the result of, among other things, increased Workers' Compensation expenses, having substantial long-term liabilities related to environmental programs, net pension obligations, and revenue bonds issued to fund local school construction which exceed currently available resources.

Restricted net assets comprise 43% of total net assets and are subject to constitutional, legal or external constraints on how they can be used. Net assets that are restricted include funds for construction projects, debt service, lending activities, and medical and health care programs of the State.

## Changes in Net Assets

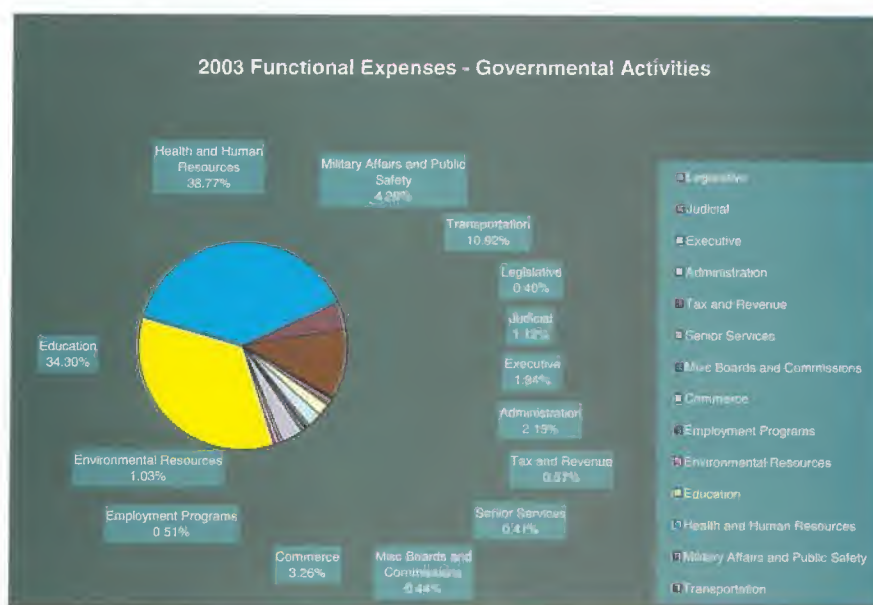
The charts below and on the next page represent financial information derived from the government-wide Statement of Activities and reflects the State's total revenues, expenses and changes in net assets for the years ended 2003 and 2002 (expressed in thousands):

	Governmental Activities		Business-type Activities		Total Primary Government	
	2003	2002	2003	2002	2003	2002
<b>Revenues</b>						
Program Revenues:						
Charges for Services	\$ 309,311	\$ 339,322	\$ 2,341,763	\$ 2,005,121	\$2,651,074	\$2,344,443
Operating Grants and Contributions	2,662,322	2,533,338	30,733	48,613	2,693,055	2,581,951
Capital Grants and Contributions	422,602	424,688	—	5,250	422,602	429,938
General Revenues:						
Personal Income Tax	1,048,172	1,052,023	—	—	1,048,172	1,052,023
Consumer Sales Tax	917,072	925,317	—	—	917,072	925,317
Severance	193,680	187,970	—	—	193,680	187,970
Business and Occupation	178,364	173,839	—	—	178,364	173,839
Gasoline and Motor Carrier	227,793	229,650	—	—	227,793	229,650
Automobile Privilege	169,431	180,472	—	—	169,431	180,472
Other Taxes	683,727	705,465	—	—	683,727	705,465
Other Revenues	<u>243,001</u>	<u>181,456</u>	<u>81,987</u>	<u>86,652</u>	<u>324,988</u>	<u>268,108</u>
<b>Total Revenues</b>	<b><u>7,055,475</u></b>	<b><u>6,933,540</u></b>	<b><u>2,454,483</u></b>	<b><u>2,145,636</u></b>	<b><u>9,509,958</u></b>	<b><u>9,079,176</u></b>
<b>Program Expenses:</b>						
Legislative	28,009	19,742	—	—	28,009	19,742
Judicial	77,487	72,387	—	—	77,487	72,387
Executive	127,350	121,744	—	—	127,350	121,744
Administration	148,812	139,177	—	—	148,812	139,177
Commerce	225,886	193,483	—	—	225,886	193,483
Environmental Protection	71,278	110,661	—	—	71,278	110,661
Employment Programs	35,115	47,520	—	—	35,115	47,520
Education	2,373,873	2,299,817	—	—	2,373,873	2,299,817
Health and Human Resources	2,683,578	2,605,461	—	—	2,683,578	2,605,461
Military Affairs and Public Safety	296,165	253,806	—	—	296,165	253,806
Tax and Revenue	39,705	27,240	—	—	39,705	27,240
Transportation	755,565	1,056,651	—	—	755,565	1,056,651
Senior Services	28,523	30,538	—	—	28,523	30,538
Miscellaneous Board and Commissions	30,177	24,376	—	—	30,177	24,376
Interest on Long-term Debt	74,027	75,553	—	—	74,027	75,553
West Virginia Lottery	—	—	670,041	563,078	670,041	563,078
Workers' Compensation Fund	—	—	1,276,891	1,148,221	1,276,891	1,148,221
Employment Security	—	—	224,897	173,934	224,897	173,934
Water Pollution Control Revolving Fund	—	—	1,752	1,821	1,752	1,821
Other Nonmajor Business-type	<u>—</u>	<u>—</u>	<u>548,086</u>	<u>542,130</u>	<u>548,086</u>	<u>542,130</u>
<b>Total Expenses</b>	<b><u>6,995,550</u></b>	<b><u>7,078,156</u></b>	<b><u>2,721,667</u></b>	<b><u>2,429,184</u></b>	<b><u>9,717,217</u></b>	<b><u>9,507,340</u></b>
<b>Increase (Decrease) in Net Assets Before</b>						
Special Items and Transfers	59,925	(144,616)	(267,184)	(283,548)	(207,259)	(428,164)
Special Items	—	(85,262)	—	—	—	(85,262)
Transfers	<u>355,533</u>	<u>267,446</u>	<u>(355,533)</u>	<u>(267,446)</u>	<u>—</u>	<u>—</u>
<b>Increase (Decrease) in Net Assets</b>	<b>415,458</b>	<b>37,568</b>	<b>(622,717)</b>	<b>(550,994)</b>	<b>(207,259)</b>	<b>(513,426)</b>
<b>Net Assets (Deficit), Beginning of Year, as Adjusted</b>	<b><u>5,719,217</u></b>	<b><u>5,360,655</u></b>	<b><u>(1,813,551)</u></b>	<b><u>(1,262,557)</u></b>	<b><u>3,905,666</u></b>	<b><u>4,098,098</u></b>
<b>Net Assets (Deficit), End of Year</b>	<b><u>\$6,134,675</u></b>	<b><u>\$5,398,223</u></b>	<b><u>\$(2,436,268)</u></b>	<b><u>\$(1,813,551)</u></b>	<b><u>\$3,698,407</u></b>	<b><u>\$3,584,672</u></b>

## Governmental Activities

The following charts depict revenues and expenditures, respectively, of the governmental activities for the fiscal year. The State's total governmental activities increased net assets by \$60 million before transfers of \$356 million from business-type activities.

Approximately 36% of the total revenues came from personal income, consumer sales, business occupation and gasoline and automobile taxes, while 44% was in the form of grants and contributions (see chart below). The State's governmental activities expenses include 39% for health and human resources and 34% for education (see chart below).





## **Business-type Activities**

Business-type activities decreased the State's net assets by \$267 million before transfers of \$356 million to governmental activities. Significant contributors to this change were:

- The Workers' Compensation Fund and the Board of Risk and Insurance Management have incurred claims in excess of billed premiums, in the amount of \$666 million and \$4 million, respectively. \$451 million of the Workers' Compensation Fund increase resulted from changes in management's assumptions primarily from lowering the discount rate from 6.5% to 5%.
- The West Virginia Lottery gaming receipts exceeded expenses by approximately \$388 million. Of this amount, \$250,000 was not transferred out to other funds based upon statutory limitations.
- Employment security incurred a net loss before transfers of approximately \$37 million. This loss was offset by increases in net income from the five nonmajor proprietary funds including Public Employees' Insurance Agency premium receipts that were greater than claims expense of approximately \$34 million.

## **FINANCIAL ANALYSIS OF THE STATE'S FUNDS**

### **Governmental Funds**

The focus of the State's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the State's financing requirements.

**Governmental Fund Balances at June 30, 2003**  
**(Expressed in Thousands)**

	<b>General Fund</b>	<b>Transportation</b>	<b>West Virginia Infrastructure and Jobs Development Council</b>	<b>Nonmajor Funds</b>	<b>Total</b>
Reserved	\$316,594	\$ 28,724	\$258,629	\$434,953	\$1,038,900
Unreserved, designated	—	—	92,620	—	92,620
Unreserved	<u>312,519</u>	<u>153,859</u>	<u>68,647</u>	<u>99,639</u>	<u>634,664</u>
Total	<u>\$629,113</u>	<u>\$182,583</u>	<u>\$419,896</u>	<u>\$534,592</u>	<u>\$1,766,184</u>

At the end of the current fiscal year, the State's governmental funds reported an ending fund balance of \$1.8 billion, an increase of \$138 million in comparison with the prior year. Of this amount, \$49 million related to the nonmajor funds, including the Tobacco Settlement Medical Trust Fund which increased \$40 million and the Lease Purchase Account which increased \$30 million, primarily because of bond proceeds and new capital lease agreements. Approximately 36% of the total fund balance is unreserved and available for spending in the coming year. The remainder of the fund balance is reserved indicating it is not available for spending because it has been committed to pay debt service (\$96 million); to fund capital projects (\$193 million); to be held in permanent funds for education and tobacco related health services (\$142 million); or for a variety of other specific purposes (\$700 million).

The general fund is the chief operating fund of the State. At the end of the current fiscal year, the unreserved fund balance of the general fund was \$313 million, while total fund balance reached \$629 million. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 5.2% of total general expenditures, while total fund balance represents 10.6% of the same amount.

Transportation had an unreserved fund balance of \$154 million, up 8% from the prior year. The reserved balance of \$29 million is primarily for inventory. Transportation revenues were down \$20 million primarily due to a decrease in automobile privilege tax. Transportation is dependent on revenues generated from the purchase and use of motor fuel, motor vehicle fees, and related federal funding; therefore, it is affected by state and national economic conditions and world events affecting availability and pricing of motor fuel. Tax and fee revenue declined from the previous year for the first time in the last seven years. Expenditures were up \$6 million, due to an increase in construction.

The West Virginia Infrastructure and Development Council's total fund balance increased \$39 million and the unreserved fund balance increased \$19 million. The reserved fund balance, \$259 million (up by \$21 million), is money committed but not distributed to entities for loans/grants and loans receivable (\$237 million) which are not available for appropriation. The decrease of \$0.8 million in revenues is due to lower investment earnings. Expenditures declined by \$3 million.

### **Proprietary Funds**

The State's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Proprietary funds are comprised of enterprise and internal service funds. Enterprise funds are used when services the State provides are charged to external customers. Internal service funds are used when services are provided to other state agencies. The four major enterprise funds include the West Virginia Lottery, Water Pollution, Workers' Compensation Funds, and Employment Security.

The West Virginia Lottery increased revenue by \$233 million, which allowed an additional \$85 million (after additional expenses of \$120 million) to be distributed to other State agencies. The West Virginia Lottery has a statutory limit on fund balance of \$250,000. Approximately \$388 million was transferred out of the West Virginia Lottery during fiscal year 2003 to finance various programs as authorized by the legislature.

Other nonmajor enterprise funds incurred a net increase in assets of \$40 million. The bulk of this increase is a result of increased premiums of the Public Employees' Insurance Agency. The billed premiums for the Board of Risk and Insurance Management and the Public Employees' Insurance Agency have exceeded the cost of coverage by approximately \$5 million and \$34 million, respectively.

Other factors concerning the finances of the enterprise funds have already been addressed in the discussion of business-type activities.

## **GENERAL AND SPECIAL REVENUE FUND BUDGETARY HIGHLIGHTS**

The general fund original and final budget incurred no net change. However, a negative variance in the general fund between the final budget and actual results arose from declines in personal income and consumer sales receipts of \$33 million and \$12 million. These declines were partially offset by increases in corporate net income and other taxes of \$11 million and \$18 million, respectively.

Actual charges to appropriations were by \$96 million below final budgeted amounts. The most significant positive variances of \$15 million, \$18 million, \$18 million, and \$14 million occurred in the Commerce, Education, Health and Military Affairs and Public Safety functions.

The positive variance between the excess of revenues over expenditures was approximately \$83 million and included the positive expenditure variance of \$96 million and negative variances in personal income and consumer sales receipts as discussed above. Actual federal revenues were approximately \$450 million less than budget and expenditures were down \$462 million.

Overall, the special revenue fund budget increased \$29 million or 3%. Increases were related to budgeted administration and commerce increases of \$10 million each and senior services increases of \$19 million. These increases were offset by a decrease in the education fund budget of \$21 million.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

At the end of 2003, the State had invested \$6.7 billion, net of accumulated depreciation, in a broad range of capital assets (see table below). Depreciation charges for the year totaled \$274 million.

#### Capital Assets at Year-End (Expressed in Thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2003	2002	2003	2002	2003	2002
Land and Improvements	\$ 739,634	\$ 668,115	\$ 611	\$ 611	\$ 740,245	\$ 668,726
Building and Improvements	362,817	350,649	1,499	1,676	364,316	352,325
Equipment	80,262	104,667	8,790	7,881	89,052	112,548
Library Holdings	1,685	1,967	—	—	1,685	1,967
Construction in Progress	767,226	312,495	—	—	767,226	312,495
Infrastructure	<u>4,782,291</u>	<u>4,717,809</u>	<u>—</u>	<u>—</u>	<u>4,782,291</u>	<u>4,717,809</u>
Totals	<u>\$6,733,915</u>	<u>\$6,155,702</u>	<u>\$10,900</u>	<u>\$10,168</u>	<u>\$6,744,815</u>	<u>\$6,165,870</u>

The total increase, net of disposals and accumulated depreciation, in the State's investment in capital assets for the current fiscal year approximated \$580 million. The most significant increase in capital assets during the year was \$455 million of construction in progress. This increase was primarily related to the restatement of Transportation's infrastructure and construction in progress assets of approximately \$321 million which was recorded as an adjustment to Transportation's beginning net asset balance.

Additional information for the State's capital assets can be found in Note 9 of this report. Note 2 includes additional information on Transportation's restatement.

### Long-Term Debt

At year-end the State had \$2.4 billion in bonds, capital leases, claims and judgments, compensated absences, and pension obligations outstanding as shown in the table below. The State's general obligation bonds are rated AA- by Standard and Poor's Corporation and Fitch Investors' Service. The Moody's Investors Service rating is Aa3. More detailed information related to the State's overall debt position is presented in Note 10 to the financial statements.



**Outstanding Debt at June 30  
(Expressed in Thousands)**

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total Primary Government</b>	
	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>
General Obligation Bonds	\$ 804,635	\$ 833,494	\$ —	\$ —	\$ 804,635	\$ 833,494
Revenue Bonds	409,106	439,011	—	—	409,106	439,011
Capital Leases	300,899	252,107	—	—	300,899	252,107
Accrued and Other Liabilities	401,091	395,601	—	—	401,091	395,601
Compensated Absences	250,427	283,245	7,638	6,409	258,065	289,654
Pension Obligation	<u>254,102</u>	<u>221,364</u>	<u>—</u>	<u>—</u>	<u>254,102</u>	<u>221,364</u>
Totals	<u>\$2,420,260</u>	<u>\$2,424,822</u>	<u>\$7,638</u>	<u>\$6,409</u>	<u>\$2,427,898</u>	<u>\$2,431,231</u>

New debt resulted from issuing \$32 million of Capital Improvement Refunding Revenue Bonds for the express purpose of refunding the outstanding balance of 1992 Capital Improvement Revenue Bonds. The refunding resulted in a reduction in aggregate debt service payments by approximately \$4 million over a 13-year period.

The State's general obligation debt must be authorized by constitutional amendment. A proposed amendment must be approved by two-thirds of both the Senate and the House of Delegates before it can be ratified or rejected by the voters. Once the amendment has voter approval, the Legislature must pass specific legislation authorizing the issuance of the general obligation debt. Revenue bonds are issued pursuant to specific statutory provisions enacted by the Legislature for the purpose of financing capital construction. Neither the West Virginia Constitution nor its statutes establish a general limit on any type of debt.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

The fiscal year 2004 budget was developed early in the year in the face of deteriorating economic conditions such as disappointing economic data, slow general revenue growth and cost increases related to Medicaid, insurance, retirement systems, and new correctional facilities.

The Legislature approved a balanced budget for fiscal 2004, with general fund appropriations of \$3.034 billion, up \$104 million from the final 2003 budget. The increase in revenue projects \$36.5 million in general economic growth which is 1.3% above the

fiscal year 2003 base, a \$59.7 million increase in cigarette tax from 17 cents to 55 cents, a \$2 million increase in wholesale liquor tax, and a \$6.1 million projected lottery increase. Other measures, taken to balance the budget included implementation of a 3% reduction in most agencies' service line costs, and a 10% reduction in the agencies' base budget. These two initiatives generated an estimated \$144.8 million savings.

The outlook for the State of West Virginia depends in part on the future performance of the national and international economies. This is because many of the goods and services produced in the State are actually consumed by firms and households located beyond the State's borders. This holds true for many of the State's commodity producers (like coal, chemicals, and steel) and also for many of the State's service-providing sectors (like tourism and call center activity). Accordingly, West Virginia's future economic performance depends in part on the future performance of our major trading partners outside the State's borders and around the world.<sup>1</sup>

With the job market down compared to early 2001 levels, and the State's population roughly stable, the seasonally-adjusted unemployment rate has risen significantly from 4.8% in 2001, only slightly higher than the national average of 4.7%, to 6.6% in August of 2003, above the national average of 6.1%. Even though the State has posted net job losses since March 2001, growth in inflation-adjusted personal income has been steady, primarily due to an acceleration in transfer payments. In contrast to the State's steady income gains, national growth slowed significantly, and this enabled West Virginia to drive the per capita personal income gap down to 23.4% in 2002, its lowest level since 1995.<sup>1</sup>

Despite the tough State and national economic conditions, the leadership of West Virginia State government has continually shown a willingness to make the necessary budget decisions while maintaining funding levels for its essential programs and services.

## **CONTACTING THE STATE'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the State's finances and to demonstrate the State's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Financial Accounting and Reporting Section, 2101 Washington St. East, Building 17, 3<sup>rd</sup> Floor, Charleston, WV 25305.

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<sup>1</sup> Bureau of Business and Economic Research, College of Business and Economics, West Virginia University, November 2003, "West Virginia Outlook," *West Virginia Economic Outlook 2004*, pp. 7-8.





A photograph of a forest stream with a large fallen log and ferns. The stream flows through a dense forest, with tall trees and lush green ferns lining the banks. A large, dark log lies across the middle of the stream, creating a small waterfall or drop. The water is clear and reflects the surrounding greenery.

# **Basic Financial Statements**

**Government-wide**

**Major Funds**

**Notes 1-16**



**Statement of Net Assets**  
**June 30, 2003**  
(Expressed in Thousands)

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
<b>Assets</b>				
<b>Current Assets:</b>				
Cash and Cash Equivalents	\$ 852,290	\$1,409,116	\$ 2,261,406	\$ 441,162
Investments	474,983	1,698	476,681	19,643
Receivables, Net	696,434	260,127	956,561	124,853
Due from Other Governments	265,446	2,377	267,823	15
Due from Primary Government	—	—	—	30,784
Due from Fiduciary Funds	16	—	16	—
Due from Component Units	1,218	2,830	4,048	—
Internal Balances	24,638	(24,638)	—	—
Inventories	39,831	584	40,415	7,669
Other Assets	5,871	926	6,797	7,045
<b>Restricted Assets:</b>				
Cash and Cash Equivalents	696	—	696	71,922
Investments	—	7,751	7,751	13,826
Other	—	—	—	84
<b>Total Current Assets</b>	<b><u>2,361,423</u></b>	<b><u>1,660,771</u></b>	<b><u>4,022,194</u></b>	<b><u>717,003</u></b>
<b>Noncurrent Assets:</b>				
Investments	—	124,357	124,357	12,380
Receivables, Net	3,411	292,454	295,865	221,451
Other Assets	3,199	—	3,199	4,515
Advance to Component Units	122,334	—	122,334	—
Net Pension Asset	1,822	—	1,822	—
<b>Restricted Assets:</b>				
Cash and Cash Equivalents	18,960	9,793	28,753	47,806
Investments	—	244,282	244,282	148,982
Receivables, Net	—	5,626	5,626	1,093,436
Other	—	46,361	46,361	11,828
Land and Other Capital Assets Not Being Depreciated	1,500,161	611	1,500,772	219,057
Capital Assets, Being Depreciated (Net of Accumulated Depreciation)	<u>5,233,754</u>	<u>10,289</u>	<u>5,244,043</u>	<u>1,674,046</u>
<b>Total Noncurrent Assets</b>	<b><u>6,883,641</u></b>	<b><u>733,773</u></b>	<b><u>7,617,414</u></b>	<b><u>3,433,501</u></b>
<b>Total Assets</b>	<b><u>9,245,064</u></b>	<b><u>2,394,544</u></b>	<b><u>11,639,608</u></b>	<b><u>4,150,504</u></b>
<b>Liabilities</b>				
<b>Current Liabilities:</b>				
Accounts Payable	207,199	184,158	391,357	44,897
Interest Payable	4,914	—	4,914	20,444
Accrued Tuition Contract Benefits	—	2,245	2,245	—
Accrued and Other Liabilities	287,453	27,881	315,334	97,752
Due to Other Governments	78,771	3,516	82,287	—
Due to Primary Government	—	—	—	4,048
Due to Fiduciary Funds	3,151	136	3,287	202
Due to Component Units	20,010	10,774	30,784	—
Deferred Revenue	97,525	22,755	120,280	41,714
Insurance and Compensation Benefits Obligations	—	721,091	721,091	—
Liabilities Payable from Restricted Assets	—	1,270	1,270	—
General Obligation Debt	29,300	—	29,300	—
Revenue Bonds Payable	31,547	—	31,547	101,119
Capital Leases	16,555	—	16,555	6,471
Compensated Absences	<u>64,726</u>	<u>2,034</u>	<u>66,760</u>	<u>30,357</u>
<b>Total Current Liabilities</b>	<b><u>841,151</u></b>	<b><u>975,860</u></b>	<b><u>1,817,011</u></b>	<b><u>347,004</u></b>

The accompanying notes are an integral part of the financial statements.

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Noncurrent Liabilities:				
Accrued Tuition Contract Benefits	—	96,197	96,197	—
Accrued and Other Liabilities	392,197	—	392,197	2,454
Deferred Revenue	—	—	—	4,195
Insurance and Compensation				
Benefits Obligations	—	3,750,436	3,750,436	—
Advances from Primary Government	—	—	—	122,334
Liabilities Payable from Restricted Assets	—	2,715	2,715	51,242
General Obligation Debt	775,335	—	775,335	—
Revenue Bonds Payable	377,559	—	377,559	1,523,079
Capital Leases	284,344	—	284,344	46,963
Net Pension Obligation	254,102	—	254,102	—
Compensated Absences	185,701	5,604	191,305	73,377
Total Noncurrent Liabilities	2,269,238	3,854,952	6,124,190	1,823,644
Total Liabilities	3,110,389	4,830,812	7,941,201	2,170,648
Net Assets				
Invested in Capital Assets, Net of Related Debt	5,910,605	10,900	5,921,505	1,257,808
Restricted For:				
Capital Projects	180,510	—	180,510	63,140
Debt Service	91,158	—	91,158	8,644
Program Administration	—	9	9	—
Permanent Funds:				
Nonexpendable	130,013	—	130,013	3,047
Expendable	11,890	—	11,890	—
Lending Activities	—	348,669	348,669	255,608
Insurance Activities	—	461,007	461,007	—
Revenue Shortfall Reserve	57,751	—	57,751	—
Income Tax Reserve Fund	24,019	—	24,019	—
Economic Development and Tourism	36,983	—	36,983	—
Education	11,829	—	11,829	—
Wildlife Management and Conservation	17,732	—	17,732	—
Specific Fund/Component Unit Purposes	210,695	—	210,695	124,298
Unrestricted (Deficit)	(548,510)	(3,256,853)	(3,805,363)	267,311
Total Net Assets (Deficit)	\$6,134,675	\$(2,436,268)	\$ 3,698,407	\$1,979,856

# West Virginia

## Statement of Activities Fiscal Year Ended June 30, 2003 (Expressed in Thousands)

Functions	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary Government:</b>				
Governmental Activities:				
Legislative	\$ 28,009	\$ 1,763	\$ 525	\$ —
Judicial	77,487	929	(35)	—
Executive	127,350	251	46,974	—
Administration	148,812	6,692	34,987	19
Commerce	225,886	37,688	82,009	—
Environmental Protection	71,278	50,326	71,934	—
Employment Programs	35,115	—	35,594	—
Education	2,373,873	3,383	311,847	—
Health and Human Resources	2,683,578	56,631	1,998,922	—
Military Affairs and Public Safety	296,165	5,957	65,847	11,303
Tax and Revenue	39,705	25,089	9	—
Transportation	755,565	93,569	—	411,280
Senior Services	28,523	—	11,664	—
Miscellaneous Boards and Commissions	30,177	27,033	2,045	—
Interest on Long-Term Debt	74,027	—	—	—
Total Governmental Activities	6,995,550	309,311	2,662,322	422,602
Business-type Activities:				
West Virginia Lottery	670,041	1,081,894	—	—
Workers' Compensation Fund	1,276,891	549,742	—	—
Employment Security	224,897	133,840	30,733	—
Water Pollution Control Revolving Fund	1,752	2,862	—	—
Other Business-type Activities:				
Insurance Activities	493,004	511,337	—	—
Other Activities	55,082	62,088	—	—
Total Business-type Activities	2,721,667	2,341,763	30,733	—
Total Primary Government	\$9,717,217	\$2,651,074	\$2,693,055	\$422,602
<b>Component Units:</b>				
Economic Development Authority	\$ 10,621	\$ 5,295	\$ —	\$ —
Housing Development Authority	123,737	70,083	52,730	—
Parkways, Economic Development, and Tourism Authority	72,656	57,465	—	—
Water Development Authority	13,988	14,738	—	—
Higher Education	1,087,166	365,781	223,780	25,950
Regional Jail Authority	69,340	55,175	—	—
Other Component Units	48,768	25,872	1,149	91
Total Component Units	\$1,426,276	\$ 594,409	\$ 277,659	\$ 26,041
<b>General Revenues:</b>				
Taxes:				
Personal Income				
Consumer Sales				
Severance				
Corporate Net Income				
Business and Occupation				
Medicaid				
Business Franchise				
Gasoline and Motor Carrier				
Automobile Privilege				
Wholesale Motor Fuel				
Other				
Unrestricted Investment Earnings				
Contributions to Tobacco Settlement and Other Permanent Fund Revenues				
Federal Appropriations - Jobs and Growth Tax Relief				
Payments from State of West Virginia				
Miscellaneous				
Transfers				
Total General Revenues and Transfers				
Change in Net Assets				
Net Assets (Deficit), Beginning of Year, as Adjusted				
Net Assets (Deficit), End of Year				

The accompanying notes are an integral part of the financial statements.

## Net (Expense) Revenue and Changes in Net Assets

Primary Government			
Governmental Activities	Business- type Activities	Total	Component Units
\$ (25,721)		\$ (25,721)	
(76,593)		(76,593)	
(80,125)		(80,125)	
(107,114)		(107,114)	
(106,189)		(106,189)	
50,982		50,982	
479		479	
(2,058,643)		(2,058,643)	
(628,025)		(628,025)	
(213,058)		(213,058)	
(14,607)		(14,607)	
(250,716)		(250,716)	
(16,859)		(16,859)	
(1,099)		(1,099)	
<u>(74,027)</u>		<u>(74,027)</u>	
<u>(3,601,315)</u>		<u>(3,601,315)</u>	
—	\$ 411,853	411,853	
—	(727,149)	(727,149)	
—	(60,324)	(60,324)	
—	1,110	1,110	
—	18,333	18,333	
—	<u>7,006</u>	<u>7,006</u>	
—	<u>(349,171)</u>	<u>(349,171)</u>	
<u>(3,601,315)</u>	<u>(349,171)</u>	<u>(3,950,486)</u>	
			\$ (5,326)
			(924)
			(15,191)
			750
			(471,655)
			(14,165)
			<u>(21,656)</u>
			<u>(528,167)</u>
1,048,172	—	1,048,172	—
917,072	—	917,072	—
193,680	—	193,680	—
83,311	—	83,311	—
178,364	—	178,364	—
143,036	—	143,036	—
96,555	—	96,555	—
227,793	—	227,793	—
169,431	—	169,431	—
69,049	—	69,049	—
291,776	—	291,776	—
52,446	75,250	127,696	36,306
32,521	—	32,521	—
30,747	—	30,747	—
—	—	—	480,421
127,287	6,737	134,024	45,017
<u>355,533</u>	<u>(355,533)</u>	<u>—</u>	<u>—</u>
<u>4,016,773</u>	<u>(273,546)</u>	<u>3,743,227</u>	<u>561,744</u>
415,458	(622,717)	(207,259)	33,577
<u>5,719,217</u>	<u>(1,813,551)</u>	<u>3,905,666</u>	<u>1,946,279</u>
<u>\$ 6,134,675</u>	<u>\$(2,436,268)</u>	<u>\$ 3,698,407</u>	<u>\$1,979,856</u>



# *GOVERNMENTAL FUND FINANCIAL STATEMENTS*

## ***Major Funds***

**General** This fund is used as the State's operating fund. It accounts for the financial resources and transactions that are not accounted for in other funds. The revenues are from taxes and other general revenues.

**Transportation** The governmental fund types of the Department of Transportation (the Department) are included in this Fund. The Division of Highways has statutory responsibility for the construction, maintenance, and improvement of all state roads. Transportation expenditures funded by registration fees, license fees, and automobile privilege taxes ("fees and taxes") are recorded in the State Road Fund within the Division of Highways. These fees and taxes, among other revenue sources, are collected by the Division of Motor Vehicles, which is also in the Department. The Department also includes the Division of Public Transit, which administers all federal and state programs that develop public transportation facilities, services, equipment, and methods; the West Virginia Aeronautics Commission, which has general supervision and controls commercial, state, and municipal airports; and the West Virginia Public Port Authority.

**West Virginia Infrastructure and Jobs Development Council** The Council coordinates the review and funding of water, wastewater, and economic development projects in the State.

Nonmajor governmental funds are presented, by fund type, beginning on page 138.

**Balance Sheet**  
**Governmental Funds**  
**June 30, 2003**  
(Expressed in Thousands)

	<u>General</u>	<u>Transportation</u>	<u>West Virginia Infrastructure and Jobs Development Council</u>	<u>Other Governmental Funds</u>	<u>Total</u>
<b>Assets</b>					
Cash and Cash Equivalents	\$ 288,775	\$110,020	\$110,257	\$336,479	\$ 845,531
Investments	153,194	—	72,747	249,042	474,983
Receivables, Net	322,083	119,809	237,423	9,821	689,136
Due from Other Governments	264,067	—	—	1,379	265,446
Due from Other Funds	29,040	3,112	—	26,386	58,538
Due from Component Units	636	482	—	—	1,118
Advances to Component Units	122,334	—	—	—	122,334
Inventories	10,569	28,724	—	127	39,420
Other Assets	3,175	2,550	—	—	5,725
Restricted Assets:					
Cash and Cash Equivalents	—	—	—	556	556
<b>Total Assets</b>	<u>\$1,193,873</u>	<u>\$264,697</u>	<u>\$420,427</u>	<u>\$623,790</u>	<u>\$2,502,787</u>
<b>Liabilities</b>					
Accounts Payable	\$ 129,676	\$ 55,396	\$ 470	\$ 17,356	\$ 202,898
Accrued and Other Liabilities	215,790	18,548	—	44,003	278,341
Due to Other Governments	73,015	2,729	—	3,027	78,771
Due to Other Funds	13,217	5,110	—	24,812	43,139
Due to Component Units	19,949	—	61	—	20,010
Deferred Revenue	<u>113,113</u>	<u>331</u>	<u>—</u>	<u>—</u>	<u>113,444</u>
<b>Total Liabilities</b>	<u>564,760</u>	<u>82,114</u>	<u>531</u>	<u>89,198</u>	<u>736,603</u>
<b>Fund Balances</b>					
Reserved for:					
Inventories	10,569	28,724	—	127	39,420
Capital Projects	—	—	—	192,967	192,967
Debt Service	—	—	—	96,072	96,072
Program Administration	—	—	—	3,884	3,884
Permanent Funds	—	—	—	141,903	141,903
Lending Activities	—	—	258,629	—	258,629
Loans Receivable	113,535	—	—	—	113,535
Revenue Shortfall Reserve	57,751	—	—	—	57,751
Income Tax Reserve Fund	24,019	—	—	—	24,019
Specific Fund Purposes (See Note 2)	110,720	—	—	—	110,720
Unreserved, Designated	—	—	92,620	—	92,620
Unreserved:					
Special Revenue Funds	—	153,859	68,647	99,639	322,145
Undesignated	<u>312,519</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>312,519</u>
<b>Total Fund Balances</b>	<u>629,113</u>	<u>182,583</u>	<u>419,896</u>	<u>534,592</u>	<u>1,766,184</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$1,193,873</u>	<u>\$264,697</u>	<u>\$420,427</u>	<u>\$623,790</u>	<u>\$2,502,787</u>

The accompanying notes are an integral part of the financial statements.

**Reconciliation of the Governmental Funds  
Balance Sheet to the Statement of Net Assets  
June 30, 2003  
(Expressed in Thousands)**

Total Fund Balances - Governmental Funds \$ 1,766,184

Amounts reported for governmental activities in the  
statement of net assets are different because:

Capital assets used in governmental activities are not  
financial resources and therefore are not reported in  
the funds. These assets (excluding Internal Service Funds)  
consist of:

Land	\$ 721,718	
Construction in Progress	766,252	
Infrastructure Assets	7,397,556	
Buildings, Equipment and Other Depreciable Assets	808,315	
Accumulated Depreciation	<u>(3,022,221)</u>	
Total Capital Assets		6,671,620

Certain tax revenues are earned but not available and  
therefore are deferred in the funds. 23,695

Internal Service Funds are used by management to charge  
the costs of certain activities, such as building rental  
and information services, to individual funds. The  
assets and liabilities of the internal service funds are  
included in governmental activities in the Statement  
of Net Assets. 73,408

Bonds issued by the State have associated costs that are  
paid from current available financial resources in the  
funds. However, these costs are deferred on the  
statement of net assets. 3,199

Some liabilities are not due and payable in the current  
period and therefore are not reported in the funds.  
These liabilities (excluding Internal Service Funds)  
consist of:

General Obligation Bonds	(804,635)	
Revenue Bonds	(409,106)	
Capital Leases	(283,762)	
Compensated Absences	(247,670)	
Net Pension Obligations	(252,280)	
Accrued Interest Payable and Other Liabilities	<u>(405,978)</u>	
Total Long-Term Liabilities		<u>(2,403,431)</u>

Net Assets of Governmental Activities \$ 6,134,675

The accompanying notes are an integral part of the financial statements.

**Statement of Revenues, Expenditures,  
and Changes in Fund Balances  
Governmental Funds  
For the Fiscal Year Ended June 30, 2003  
(Expressed in Thousands)**

	General	Transportation	Infrastructure and Jobs Development Council	Other Governmental Funds	Total
<b>Revenues:</b>					
Taxes:					
Personal Income	\$1,038,181	\$ —	\$ —	\$ —	\$1,038,181
Consumer Sales	917,072	—	—	—	917,072
Severance	193,680	—	—	—	193,680
Corporate Net Income	83,311	—	—	—	83,311
Business and Occupation	178,364	—	—	—	178,364
Medicaid	143,036	—	—	—	143,036
Business Franchise	96,555	—	—	—	96,555
Gasoline and Motor Carrier	—	227,793	—	—	227,793
Automobile Privilege	—	169,431	—	—	169,431
Wholesale Motor Fuel	—	69,049	—	—	69,049
Other	285,388	2,388	—	4,000	291,776
Intergovernmental	2,343,551	406,824	—	118,086	2,868,461
Licenses, Permits, and Fees	73,639	3,965	—	80,260	157,864
Motor Vehicle Registration	—	88,967	—	—	88,967
Charges for Services	88,699	—	1,558	560	90,817
Food Stamp Revenue	211,218	—	—	—	211,218
Investment Earnings	41,414	1,112	4,666	20,651	67,843
Other	<u>95,836</u>	<u>19,208</u>	<u>—</u>	<u>36,228</u>	<u>151,272</u>
<b>Total Revenues</b>	<b><u>5,789,944</u></b>	<b><u>988,737</u></b>	<b><u>6,224</u></b>	<b><u>259,785</u></b>	<b><u>7,044,690</u></b>
<b>Expenditures:</b>					
Current:					
Legislature	26,349	—	—	2,552	28,901
Judicial	77,816	—	—	—	77,816
Executive	113,593	—	—	68	113,661
Administration	87,109	—	—	—	87,109
Commerce	227,715	—	6,957	—	234,672
Environmental Protection	9,390	—	—	94,176	103,566
Employment Programs	—	—	—	38,401	38,401
Education	2,315,741	—	—	924	2,316,665
Health and Human Resources	2,709,057	—	—	—	2,709,057
Military Affairs and Public Safety	290,204	—	—	3,407	293,611
Tax and Revenue	40,136	—	—	709	40,845
Transportation	1,529	539,690	—	—	541,219
Senior Services	28,676	—	—	—	28,676
Miscellaneous Boards and Commissions	6,655	—	—	24,558	31,213
Capital Outlay	—	404,960	—	130,048	535,008
Debt Service:					
Principal	—	22,040	—	42,136	64,176
Interest	<u>—</u>	<u>25,413</u>	<u>—</u>	<u>47,265</u>	<u>72,678</u>
<b>Total Expenditures</b>	<b><u>5,933,970</u></b>	<b><u>992,103</u></b>	<b><u>6,957</u></b>	<b><u>384,244</u></b>	<b><u>7,317,274</u></b>
Deficiency of Revenues Under Expenditures	<u>(144,026)</u>	<u>(3,366)</u>	<u>(733)</u>	<u>(124,459)</u>	<u>(272,584)</u>
<b>Other Financing Sources (Uses):</b>					
Face Value of Long-Term Debt Issued	—	—	—	32,370	32,370
Premiums (Discounts) on Bonds Issued	—	—	—	(1,039)	(1,039)
Capital Lease Acquisition	2,862	—	—	57,566	60,428
Payments to Refunded Bond Escrow Agent	—	—	—	(31,325)	(31,325)
Transfers In	302,555	12,250	45,586	156,780	517,171
Transfers Out	<u>(119,664)</u>	<u>—</u>	<u>(5,714)</u>	<u>(40,878)</u>	<u>(166,256)</u>
<b>Total Other Financing Sources (Uses)</b>	<b><u>185,753</u></b>	<b><u>12,250</u></b>	<b><u>39,872</u></b>	<b><u>173,474</u></b>	<b><u>411,349</u></b>
<b>Net Change in Fund Balance</b>	<b><u>41,727</u></b>	<b><u>8,884</u></b>	<b><u>39,139</u></b>	<b><u>49,015</u></b>	<b><u>138,765</u></b>
<b>Fund Balances, Beginning of Year</b>	<b><u>587,386</u></b>	<b><u>173,699</u></b>	<b><u>380,757</u></b>	<b><u>485,577</u></b>	<b><u>1,627,419</u></b>
<b>Fund Balances, End of Year</b>	<b><u>\$ 629,113</u></b>	<b><u>\$182,583</u></b>	<b><u>\$419,896</u></b>	<b><u>\$ 534,592</u></b>	<b><u>\$1,766,184</u></b>

The accompanying notes are an integral part of the financial statements.

**Reconciliation of the Statement of Revenues,  
Expenditures, and Changes in Fund Balances -  
Governmental Funds to the Statement of Activities  
For the Fiscal Year Ended June 30, 2003  
(Expressed in Thousands)**

Net Change in Fund Balances - Total Governmental Funds \$138,765

Amounts reported for governmental activities in the statement of  
activities are different because:

Capital outlays are reported as expenditures in governmental funds.

However, in the statement of activities, the cost of capital assets  
is allocated over their estimated useful lives as depreciation expense.

In the current period, these amounts are:

Capital Outlay	\$ 522,484	
Depreciation Expense	<u>(262,955)</u>	
Excess of Capital Outlay Over Depreciation Expense		259,529

Some capital additions were financed through capital leases. In  
governmental funds, a capital lease arrangement is considered a  
source of financing, but in the statement of net assets, the lease  
obligation is reported as a liability. (60,428)

Bond proceeds provide current financial resources to governmental funds;  
however, issuing debt increases long-term liabilities in the statement  
of net assets. In the current period, proceeds were received from:

Revenue Bonds issued, including a discount of \$1,039		
Total Bond Proceeds		(31,331)

Repayment of long-term debt is reported as an expenditure in  
governmental funds, but the repayment reduces long-term liabilities  
in the statement of net assets. For the current year these amounts  
consist of:

Bond Principal Retirement	89,255	
Capital Lease Payments	<u>9,773</u>	
Total Long-Term Debt Repayment		99,028

Internal service funds are used by management to charge the costs of  
certain activities, such as building and vehicle maintenance and  
leasing, data processing, and investment and management of State  
moneys, to individual funds. The net increase in net assets of the  
internal service funds is reported with governmental activities. 1,225

Revenues in the statement of activities that do not provide current  
financial resources are not reported as revenues in the funds. 11,806

Some expenses reported in the statement of activities do not require the  
use of current financial resources and therefore are not reported as  
expenditures in governmental funds. These activities consist of:

Accrued Interest	87	
Compensated Absences	32,724	
Accrued and Other Liabilities	(5,490)	
Net Pension Obligation (Asset)	(30,916)	
Amortization of Bond Premiums and Issuance Costs	<u>459</u>	
Total Additional Expenditures		<u>(3,136)</u>

Change in Net Assets of Governmental Activities \$415,458

The accompanying notes are an integral part of the financial statements.



# *PROPRIETARY FUND FINANCIAL STATEMENTS*

## ***Major Funds***

**West Virginia Lottery** The West Virginia Lottery's responsibilities include the distribution and sale of lottery tickets and the awarding of prizes. The West Virginia Lottery accounts for lottery ticket revenues, administrative and operating expenses and distribution of net revenue to the General Fund.

**Water Pollution Control Revolving Fund (Water Pollution)** Low interest loans are made to communities that need to upgrade an existing wastewater system, establishing a new utility or cleaning up the State's water supply. The Fund is to remain in perpetuity by recirculating the principal and interest earned from the loans.

**Workers' Compensation Fund** The Fund is responsible for providing a prompt and equitable system of compensation for injury or illness sustained during the course of employment. The Fund, the only entity in the State extending this type of service, is required by statute to provide insurance to all employers in the State. The Fund has discretionary power to alter its premium structure.

**Employment Security** The Fund is administered by the West Virginia Employment Security Commission. The Fund receives contributions from employers and provides for the payment of benefits to eligible unemployed workers.

Nonmajor proprietary funds are presented beginning on page 158.

# West Virginia

## Statement of Net Assets Proprietary Funds June 30, 2003 (Expressed in Thousands)

### Business-type Activities - Enterprise Funds

	West Virginia <u>Lottery</u>	Water Pollution	Workers' Compensation Funds	Employment Security
<b>Assets:</b>				
<b>Current Assets:</b>				
Cash and Cash Equivalents	\$49,504	\$ 82,033	\$ 892,546	\$240,807
Investments	—	—	—	—
Receivables, Net	24,007	14,101	156,852	36,103
Due from Other Governments	—	97	—	2,005
Due from Other Funds	15	5	4,448	385
Due from Component Units	—	—	1,510	641
Inventories	566	—	—	—
Other Assets	908	—	—	—
<b>Restricted Assets:</b>				
Cash and Cash Equivalents	—	—	—	—
Investments	372	—	—	—
Due from Other Funds	—	—	—	—
<b>Total Current Assets</b>	<b><u>75,372</u></b>	<b><u>96,236</u></b>	<b><u>1,055,356</u></b>	<b><u>279,941</u></b>
<b>Noncurrent Assets:</b>				
Investments	—	—	—	—
Receivables, Net	—	257,468	—	—
<b>Restricted Assets:</b>				
Cash and Cash Equivalents	—	—	23	—
Investments	4,077	—	210,000	—
Receivables, Net	—	—	—	—
Other Restricted Assets	—	—	—	—
Capital Assets, Net	<u>4,754</u>	—	<u>3,780</u>	—
<b>Total Noncurrent Assets</b>	<b><u>8,831</u></b>	<b><u>257,468</u></b>	<b><u>213,803</u></b>	<b><u>—</u></b>
<b>Total Assets</b>	<b><u>84,203</u></b>	<b><u>353,704</u></b>	<b><u>1,269,159</u></b>	<b><u>279,941</u></b>
<b>Liabilities:</b>				
<b>Current Liabilities:</b>				
Accounts Payable	22,171	9	152,824	—
Interest Payable	—	—	—	—
Accrued Tuition Contract Benefits	—	—	—	—
Accrued and Other Liabilities	21,133	832	2,902	932
Due to Other Governments	—	1	—	3,515
Due to Other Funds	26,677	44	5,518	22
Due to Component Units	9,306	28	1,440	—
Deferred Revenue	—	—	—	—
Insurance and Compensation Benefits Obligations	—	—	584,800	22,985
Liabilities Payable from Restricted Assets	1,270	—	—	—
Capital Leases	—	—	—	—
Compensated Absences	—	—	<u>2,015</u>	—
<b>Total Current Liabilities</b>	<b><u>80,557</u></b>	<b><u>914</u></b>	<b><u>749,499</u></b>	<b><u>27,454</u></b>
<b>Noncurrent Liabilities:</b>				
Accrued Tuition Contract Benefits	—	—	—	—
Insurance and Compensation Benefits Obligations	—	—	3,618,500	—
Liabilities Payable from Restricted Assets	2,715	—	—	—
Capital Leases	—	—	—	—
Compensated Absences	<u>681</u>	<u>347</u>	<u>2,840</u>	—
<b>Total Noncurrent Liabilities</b>	<b><u>3,396</u></b>	<b><u>347</u></b>	<b><u>3,621,340</u></b>	<b><u>—</u></b>
<b>Total Liabilities</b>	<b><u>83,953</u></b>	<b><u>1,261</u></b>	<b><u>4,370,839</u></b>	<b><u>27,454</u></b>
<b>Net Assets:</b>				
Invested in Capital Assets, Net of Related Debt	4,754	—	3,780	—
Restricted for Capital Projects	—	—	—	—
Restricted for Program Administration	—	—	—	—
Restricted for Lending Activities	—	317,920	—	—
Restricted for Insurance Activities	—	—	191,691	252,487
Unrestricted	<u>(4,504)</u>	<u>34,523</u>	<u>(3,297,151)</u>	—
<b>Total Net Assets (Deficit)</b>	<b><u>\$ 250</u></b>	<b><u>\$352,443</u></b>	<b><u>\$(3,101,680)</u></b>	<b><u>\$252,487</u></b>

The accompanying notes are an integral part of the financial statements.

Other Enterprise Funds	Total	Governmental Activities - Internal Service Funds
\$144,226	\$ 1,409,116	\$ 6,759
1,698	1,698	—
29,064	260,127	2,933
275	2,377	—
3,650	8,503	6,252
679	2,830	100
18	584	411
18	926	146
—	—	140
7,879	7,751	—
<u>24,000</u>	<u>24,000</u>	<u>—</u>
<u>211,007</u>	<u>1,717,912</u>	<u>16,741</u>
124,357	124,357	—
34,986	292,454	—
9,770	9,793	18,960
30,205	244,282	—
5,626	5,626	—
46,361	46,361	—
<u>2,366</u>	<u>10,900</u>	<u>62,295</u>
<u>253,671</u>	<u>733,773</u>	<u>81,255</u>
<u>464,678</u>	<u>2,451,685</u>	<u>97,996</u>
9,154	184,158	4,301
—	—	27
2,245	2,245	—
2,082	27,881	218
—	3,516	—
25,016	57,277	148
—	10,774	—
22,755	22,755	—
113,306	721,091	—
—	1,270	—
—	—	5,734
<u>19</u>	<u>2,034</u>	<u>—</u>
<u>174,577</u>	<u>1,033,001</u>	<u>10,428</u>
96,197	96,197	—
131,936	3,750,436	—
—	2,715	—
—	—	11,403
<u>1,736</u>	<u>5,604</u>	<u>2,757</u>
<u>229,869</u>	<u>3,854,952</u>	<u>14,160</u>
<u>404,446</u>	<u>4,887,953</u>	<u>24,588</u>
2,366	10,900	45,158
—	—	18,973
9	9	—
30,749	348,669	—
16,829	461,007	—
<u>10,279</u>	<u>(3,256,853)</u>	<u>9,277</u>
<u>\$ 60,232</u>	<u>\$(2,436,268)</u>	<u>\$73,408</u>

## West Virginia

**Statement of Revenues, Expenses, and  
Changes in Fund Net Assets  
Proprietary Funds  
For the Fiscal Year Ended June 30, 2003  
(Expressed in Thousands)**

**Business-type Activities - Enterprise Funds**

	<b>West Virginia Lottery</b>	<b>Water Pollution</b>	<b>Workers' Compensation Funds</b>	<b>Employment Security</b>
Operating Revenues:				
Charges for Services and Sales	\$ —	\$ —	\$ —	\$133,936
Lottery Games	1,081,909	—	—	—
Insurance Premiums	—	—	549,796	—
Tuition Contracts	—	—	—	—
Investment Earnings	—	1,802	—	—
Licenses, Permits, and Fees	—	1,060	—	—
Other	<u>12,091</u>	<u>—</u>	<u>18,911</u>	<u>7,436</u>
Total Operating Revenues	<u>1,094,000</u>	<u>2,862</u>	<u>568,707</u>	<u>141,372</u>
Operating Expenses:				
Cost of Sales and Services	527,838	—	—	—
Lottery Prizes	114,651	—	—	—
Insurance Claims	—	—	1,215,817	—
Tuition Contract Benefits and Expenses	—	—	—	—
General and Administration	10,325	1,752	60,920	—
Depreciation and Amortization	1,885	—	266	—
Other	<u>14,992</u>	<u>—</u>	<u>—</u>	<u>224,919</u>
Total Operating Expenses	<u>669,691</u>	<u>1,752</u>	<u>1,277,003</u>	<u>224,919</u>
Operating Income (Loss)	424,309	1,110	(708,296)	(83,547)
Nonoperating Revenues (Expenses):				
Entitlements and Grants	—	—	—	30,733
Gain on Sale of Equipment	—	—	—	—
Interest and Other Investment Income	1,182	1,119	47,324	15,465
Interest Expense	(368)	—	—	—
Other Nonoperating Revenues	—	—	—	—
Other Nonoperating Expenses	<u>(37,015)</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total Nonoperating Revenues (Expenses)	<u>(36,201)</u>	<u>1,119</u>	<u>47,324</u>	<u>46,198</u>
Income (Loss) Before Contributions and Transfers	388,108	2,229	(660,972)	(37,349)
Contributions and Transfers:				
Capital Contributions	—	—	—	—
Transfers In	—	32,294	4,792	—
Transfers Out	<u>(388,108)</u>	<u>—</u>	<u>—</u>	<u>(3,745)</u>
Total Contributions and Transfers	<u>(388,108)</u>	<u>32,294</u>	<u>4,792</u>	<u>(3,745)</u>
Change in Net Assets	—	34,523	(656,180)	(41,094)
Net Assets (Deficit), Beginning of Year	<u>250</u>	<u>317,920</u>	<u>(2,445,500)</u>	<u>293,581</u>
Net Assets (Deficit), End of Year	<u>\$ 250</u>	<u>\$352,443</u>	<u>\$(3,101,680)</u>	<u>\$252,487</u>

The accompanying notes are an integral part of the financial statements.

Other Enterprise Funds	Total	Governmental Activities - Internal Service Funds
\$ 55,839	\$ 189,775	\$51,658
—	1,081,909	—
511,435	1,061,231	—
3,430	3,430	—
—	1,802	—
2,819	3,879	—
<u>5,331</u>	<u>43,769</u>	<u>—</u>
<u>578,854</u>	<u>2,385,795</u>	<u>51,658</u>
43,914	571,752	42,692
—	114,651	—
466,543	1,682,360	—
4,233	4,233	—
26,585	99,582	5,097
260	2,411	8,338
<u>6,662</u>	<u>246,573</u>	<u>—</u>
<u>548,197</u>	<u>2,721,562</u>	<u>56,127</u>
30,657	(335,767)	(4,469)
—	30,733	—
—	—	765
10,160	75,250	229
—	(368)	(815)
—	—	878
<u>(17)</u>	<u>(37,032)</u>	<u>—</u>
<u>10,143</u>	<u>68,583</u>	<u>1,057</u>
40,800	(267,184)	(3,412)
—	—	19
7,599	44,685	4,618
<u>(8,365)</u>	<u>(400,218)</u>	<u>—</u>
<u>(766)</u>	<u>(355,533)</u>	<u>4,637</u>
40,034	(622,717)	(1,225)
<u>20,198</u>	<u>(1,813,551)</u>	<u>72,183</u>
<u>\$ 60,232</u>	<u>\$(2,436,268)</u>	<u>\$73,408</u>



**Statement of Cash Flows  
Proprietary Funds  
June 30, 2003  
(Expressed in Thousands)**

	<b>Business-type Activities - Enterprise Funds</b>			
	<b>West Virginia Lottery</b>	<b>Water Pollution</b>	<b>Workers' Compensation Funds</b>	<b>Employment Security</b>
<b>Cash Flows From Operating Activities:</b>				
Receipts from Customers	\$1,103,341	\$ 15,985	\$ 563,930	\$132,945
Payments to Suppliers	(13,284)	—	(22,729)	—
Payments to Employees	(4,554)	(1,218)	(35,593)	—
Payments to Beneficiaries	—	—	—	—
Payments for Loans Originated	—	(32,775)	—	—
Payments to Claimants	—	—	(720,314)	(221,503)
Other Operating Cash Receipts	—	—	—	6,518
Other Operating Cash Payments	<u>(643,861)</u>	<u>(455)</u>	<u>—</u>	<u>—</u>
<b>Net Cash Provided by (Used for) Operating Activities</b>	<u>441,642</u>	<u>(18,463)</u>	<u>(214,706)</u>	<u>(82,040)</u>
<b>Cash Flows from Noncapital Financing Activities:</b>				
Repayment of Operating Debt	(1,428)	—	—	—
Transfers In	—	—	4,792	—
Transfers Out	(455,583)	—	—	(3,745)
Other Nonoperating Revenues (Expenses)	(3,386)	—	—	—
Entitlements and Grants	<u>—</u>	<u>32,217</u>	<u>—</u>	<u>30,733</u>
<b>Net Cash Provided by (Used for) Noncapital Financing Activities</b>	<u>(460,397)</u>	<u>32,217</u>	<u>4,792</u>	<u>26,988</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>				
Capital Contributions	—	—	—	—
Proceeds from Sale of Capital Bonds and Other Debts	—	—	—	—
Repayment of Capital Debt	—	—	—	—
Interest Paid on Capital Debt	—	—	—	—
Acquisition and Construction of Capital Assets	(6,255)	—	(2,414)	—
Proceeds from Sale of Capital Assets	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
<b>Net Cash Used for Capital and Related Financing Activities</b>	<u>(6,255)</u>	<u>—</u>	<u>(2,414)</u>	<u>—</u>
<b>Cash Flows from Investing Activities:</b>				
Purchase of Investments	—	—	—	—
Proceeds from Sale of Investments	1,428	—	—	—
Investment Earnings	<u>887</u>	<u>1,119</u>	<u>47,324</u>	<u>15,465</u>
<b>Net Cash Provided by (Used for) Investing Activities</b>	<u>2,315</u>	<u>1,119</u>	<u>47,324</u>	<u>15,465</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<u>(22,695)</u>	<u>14,873</u>	<u>(165,004)</u>	<u>(39,587)</u>
<b>Cash and Cash Equivalents, Beginning of Year, as Adjusted</b>	<u>72,199</u>	<u>67,160</u>	<u>1,057,573</u>	<u>280,394</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 49,504</u>	<u>\$ 82,033</u>	<u>\$ 892,569</u>	<u>\$240,807</u>

The accompanying notes are an integral part of the financial statements.

<u>Other Enterprise Funds</u>	<u>Total</u>	<u>Governmental Activities - Internal Service Funds</u>
\$ 585,345	\$2,401,546	\$50,870
(66,901)	(102,914)	(33,168)
(6,638)	(48,003)	(14,163)
(455,360)	(455,360)	—
(3,396)	(36,171)	—
—	(941,817)	—
4,199	10,717	—
—	(644,316)	—
<u>57,249</u>	<u>183,682</u>	<u>3,539</u>
—	(1,428)	—
7,598	12,390	4,618
(8,365)	(467,693)	—
—	(3,386)	466
—	<u>62,950</u>	—
<u>(767)</u>	<u>(397,167)</u>	<u>5,084</u>
—	—	19
—	—	4,189
—	—	(6,052)
—	—	(862)
(174)	(8,843)	(5,959)
—	—	<u>742</u>
<u>(174)</u>	<u>(8,843)</u>	<u>(7,923)</u>
(45,442)	(45,442)	(578)
5,275	6,703	50
<u>6,670</u>	<u>71,465</u>	<u>231</u>
<u>(33,497)</u>	<u>32,726</u>	<u>(297)</u>
22,811	(189,602)	403
<u>131,185</u>	<u>1,608,511</u>	<u>25,456</u>
<u>\$ 153,996</u>	<u>\$1,418,909</u>	<u>\$25,859</u>

(Continued)

**Statement of Cash Flows**  
**Proprietary Funds**  
**June 30, 2003**  
(Expressed in Thousands)  
(Continued)

	<b>Business-type Activities - Enterprise Funds</b>			
	<b>West Virginia Lottery</b>	<b>Water Pollution</b>	<b>Workers' Compensation Funds</b>	<b>Employment Security</b>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities:				
Operating Income (Loss)	\$424,309	\$1,110	\$(708,296)	\$(83,547)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities:				
Depreciation and Amortization	1,885	—	266	—
Changes in Assets and Liabilities:				
Receivables	9,341	(19,641)	8,505	(1,437)
Inventories	216	—	—	—
Other Assets	64	—	—	—
Accounts Payable and Accrued Liabilities	2,470	42	1,685	3,227
Tuition Contract Benefits and Expenses	—	—	—	—
Deferred Revenues	—	—	—	—
Escrow Deposits	—	—	—	—
Due to/from Other Funds	—	26	—	(283)
Unpaid Claims Liabilities	—	—	—	—
Other Liabilities	3,357	—	483,134	—
Compensated Absences	—	—	—	—
Net Cash Provided by (Used for) Operating Activities	<u>\$441,642</u>	<u>\$(18,463)</u>	<u>\$(214,706)</u>	<u>\$(82,040)</u>
Schedule of Noncash Capital and Financing Activities:				
Disposal of Fixed Assets	\$ —	\$ —	\$ —	\$ —
Unrealized Gain on Investments	—	—	—	—

The accompanying notes are an integral part of the financial statements.

<u>Other Enterprise Funds</u>	<u>Total</u>	<u>Governmental Activities - Internal Service Funds</u>
\$30,657	\$(335,767)	\$(4,469)
260	2,411	8,338
(5,559)	(8,791)	(786)
(10)	206	1
(132)	(68)	104
(256)	7,168	407
2,582	2,582	—
9,653	9,653	—
(4,849)	(4,849)	—
231	(26)	—
23,088	23,088	—
1,587	488,078	(56)
<u>(3)</u>	<u>(3)</u>	<u>—</u>
<u>\$57,249</u>	<u>\$ 183,682</u>	<u>\$ 3,539</u>
\$ (50)	\$ (50)	\$ —
3,490	3,490	—

# *FIDUCIARY FUND FINANCIAL STATEMENTS*

***Private Purpose Trust Fund*** This fund is used to report a trust arrangement under which principal and income benefit individuals.

**SMART 529** The West Virginia College Savings Program (the Program) operates under the West Virginia State Code Chapter 18, Article 30 and is administered by the Office of the State Treasurer under the direction of the Program's Board. All funds paid into or invested through the Program will be available for use at any two- or four-year college or university in the country, with refund and transfer options available. Since the Program is an Internal Revenue Service Section 529 Qualified State Tuition Program, earnings on the funds are federally tax deferred until used for college.

The individual Pension Trust, Investment Trust and Agency Fund descriptions and financial statements begin on page 163.



**Statement of Fiduciary Net Assets**  
**Fiduciary Funds**  
**June 30, 2003**  
**(Expressed in Thousands)**

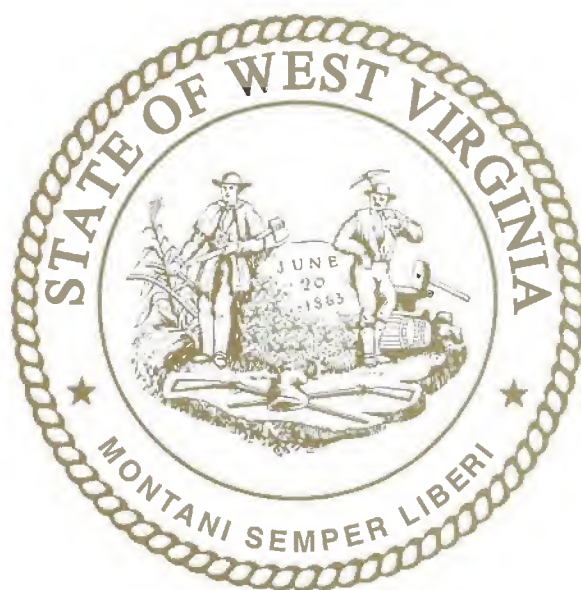
	<b>Pension Trust Funds</b>	<b>Investment Trust Funds</b>	<b>Private Purpose Trust Fund</b>	<b>Agency Funds</b>
<b>Assets:</b>				
Cash and Cash Equivalents	\$ 6,472	\$ —	\$ —	\$24,950
Equity in Pooled Cash Equivalents	—	195,757	—	22,256
<b>Investments:</b>				
Equity Pooled Investments	4,067,881	—	—	—
Mutual Funds	429,185	—	146,276	—
<b>Receivables, Net:</b>				
Contributions Receivable	25,034	—	807	—
Participant Loans Receivable	18,752	—	—	—
Accrued Interest Receivable	—	—	—	23
Due from Other Funds	3,287	—	—	—
Due from Component Units	202	—	—	—
Other Assets	<u>39</u>	<u>—</u>	<u>—</u>	<u>—</u>
<b>Total Assets</b>	<b><u>4,550,852</u></b>	<b><u>195,757</u></b>	<b><u>147,083</u></b>	<b><u>\$47,229</u></b>
<b>Liabilities:</b>				
Accounts Payable	—	—	145	\$ 30
Accrued and Other Liabilities	928	—	101	—
Due to Other Governments	—	—	—	8,680
Due to Other Funds	16	—	—	—
Agency Liabilities	<u>—</u>	<u>—</u>	<u>—</u>	<u>38,519</u>
<b>Total Liabilities</b>	<b><u>944</u></b>	<b><u>—</u></b>	<b><u>246</u></b>	<b><u>\$47,229</u></b>
<b>Net Assets:</b>				
<b>Held in Trust For:</b>				
Pension Benefits, External Investment Pool				
Participants, Individuals, and Organizations	<u>4,549,908</u>	<u>195,757</u>	<u>146,837</u>	
<b>Total Net Assets</b>	<b><u>\$4,549,908</u></b>	<b><u>\$195,757</u></b>	<b><u>\$146,837</u></b>	

The accompanying notes are an integral part of the financial statements.

**Statement of Changes in Fiduciary Net Assets  
Pension, Investment Trust, and Private  
Purpose Trust Funds  
For the Fiscal Year Ended June 30, 2003  
(Expressed in Thousands)**

	<b>Pension Trust Funds</b>	<b>Investment Trust Funds</b>	<b>Private Purpose Trust Fund</b>
Additions:			
Contributions:			
Members	\$ 130,550	\$ —	\$ —
Employer	445,585	—	—
Account Holder Contributions	—	—	106,306
Deposits, Pool Participants	—	578,369	—
Total Contributions	<u>576,135</u>	<u>578,369</u>	<u>106,306</u>
Investment Income:			
Net Appreciation in Fair Value of Investments	220,375	3,248	9,585
Interest	2,436	—	1,199
Investment Expense	(14,207)	—	(450)
Net Investment Income	<u>208,604</u>	<u>3,248</u>	<u>10,334</u>
Other	<u>15,433</u>	<u>—</u>	<u>—</u>
Total Additions	<u>800,172</u>	<u>581,617</u>	<u>116,640</u>
Deductions:			
Benefits Expense	479,396	—	—
Payments in Accordance with Trust Agreements	—	—	3,464
Refunds of Contributions	19,140	—	—
Withdrawals	—	598,384	—
Administrative Expenses	5,142	—	254
Total Deductions	<u>503,678</u>	<u>598,384</u>	<u>3,718</u>
Change in Net Assets Held in Trust for:			
Pension Benefits	296,494	—	—
External Investment Pool Participants	—	(16,767)	—
Individuals and Organizations	—	—	112,922
Net Assets, Beginning of Year	<u>4,253,414</u>	<u>212,524</u>	<u>33,915</u>
Net Assets, End of Year	<u>\$4,549,908</u>	<u>\$195,757</u>	<u>\$146,837</u>

The accompanying notes are an integral part of the financial statements.



# *DISCRETELY PRESENTED COMPONENT UNITS FINANCIAL STATEMENTS*

## *Major Component Units*

**Economic Development Authority** The Authority, responsible for developing and advancing the business prosperity and economic welfare of the State, is authorized to make loans and enter into direct financing and operating leases with industrial development agencies for the promotion and retention of new and existing commercial and industrial development. The Authority is empowered to borrow money and issue bonds, notes, commercial paper and other debt instruments to furnish money for the enhancement of business development projects, and additionally maintains the discretionary ability to set loan terms and interest rates.

**Housing Development Fund** The Fund is responsible for providing residential housing programs for low and moderate income families, elderly persons, and other eligible persons and families as well as financing certain nonresidential projects. The Fund is empowered to issue bonds payable from mortgage payments and to issue general obligation bonds payable from other assets. The bonds of the Housing Development Fund do not constitute debt of the State.

**Parkways, Economic Development, and Tourism Authority** The Authority is responsible for operation and maintenance of the State turnpike and economic development and tourism for those areas within 75 miles. The Authority is empowered to issue bonds and set rates for crossing the turnpike. The State has discretionary authority to reappropriate any surplus from the Authority.

**Water Development Authority** The Authority is responsible for assisting in the preservation, protection, improvement, and management of the State's water resources. The Authority oversees a loan pool program which provides low-interest

financing to local governments for water and wastewater projects. The Authority issues bonds to fund the loan pool and uses the proceeds to purchase local government revenue bonds. The revenue bonds are payable solely from the revenues of the projects.

**The Regional Jail and Correctional Facility Authority** The Authority is responsible for replacing individual county jails with regional jails. Along with the state correctional institutions, the Regional Jail Authority is part of the consolidated penal system of this State. Although the construction of additional jails is ongoing, the operating focus has become the confinement of prisoners and existing jail operations. A majority of the operations, as well as a majority of the debt service, are financed by per diem fees for prisoners and court fees rather than appropriations from the State. No bonds or other obligations may be issued until the Legislature has approved the purpose and amount of each project.

**The West Virginia Higher Education Fund** The Fund is responsible for providing the delivery of postsecondary education which is competitive, affordable, and has the capacity to deliver the programs and services necessary to meet the regional and statewide needs of young people and working-age adults. The focus and collaboration of the Institutions within the Fund is to create a system of higher education that is equipped to increase the competitiveness and to diversify and to expand the State's workforce by increasing the number of college degrees produced. The Fund obtains revenues from state and federal student aid programs; tuition and fees; state and federal appropriations; sales and services of educational activities and auxiliary enterprises; federal, state, local, and nongovernmental grants and contracts; and gifts and contributions.

Nonmajor component units are presented beginning on page 173.



## West Virginia

### Combining Statement of Net Assets Discretely Presented Component Units June 30, 2003 (Expressed in Thousands)

	Economic Development Authority	Housing Development Fund	Parkways, Economic Development and Tourism Authority	Water Development Authority
<b>Assets:</b>				
<b>Current Assets:</b>				
Cash and Cash Equivalents	\$ 27,304	\$ 13,326	\$ 312	\$ 9,220
Investments	—	—	—	—
Receivables, Net	25,890	8,796	1,705	13,538
Due from Other Governments	—	—	—	—
Due from Primary Government	—	5,000	157	89
Inventories	—	—	2,511	—
Other Assets	27	3,034	2,537	—
<b>Restricted Assets:</b>				
Cash and Cash Equivalents	—	65,136	—	—
Investments	—	—	13,826	—
Other Restricted Assets	—	—	—	—
<b>Total Current Assets</b>	<u>53,221</u>	<u>95,292</u>	<u>21,048</u>	<u>22,847</u>
<b>Noncurrent Assets:</b>				
Investments	—	—	—	—
Receivables, Net	135,498	40,423	—	3,438
Other Assets	—	—	—	—
<b>Restricted Assets:</b>				
Cash and Cash Equivalents	12,224	22,649	6,765	5,222
Investments	—	110,230	21,040	17,712
Receivables, Net	—	883,217	—	210,219
Other Restricted Assets	—	11,355	—	—
Capital Assets, Net	<u>38,990</u>	<u>244</u>	<u>570,844</u>	<u>852</u>
<b>Total Noncurrent Assets</b>	<u>186,712</u>	<u>1,068,118</u>	<u>598,649</u>	<u>237,443</u>
<b>Total Assets</b>	<u>239,933</u>	<u>1,163,410</u>	<u>619,697</u>	<u>260,290</u>
<b>Liabilities:</b>				
<b>Current Liabilities:</b>				
Accounts Payable	15	—	3,691	16
Interest Payable	—	6,884	746	2,780
Accrued and Other Liabilities	—	27,788	1,979	—
Due to Primary Government	—	—	699	2
Deferred Revenue	—	—	—	—
Revenue Bonds Payable	—	71,370	2,961	10,353
Capital Leases	800	—	—	—
Compensated Absences	—	—	—	—
<b>Total Current Liabilities</b>	<u>815</u>	<u>106,042</u>	<u>10,076</u>	<u>13,151</u>
<b>Noncurrent Liabilities:</b>				
Deferred Revenue	4,195	—	—	—
Advances from Primary Government	122,334	—	—	—
Liabilities Payable from Restricted Assets	—	45,171	—	—
Accrued and Other Liabilities	1,854	—	—	—
Revenue Bonds Payable	—	711,643	111,846	208,676
Capital Leases	10,736	—	—	—
Compensated Absences	—	2,214	2,921	297
<b>Total Noncurrent Liabilities</b>	<u>139,119</u>	<u>759,028</u>	<u>114,767</u>	<u>208,973</u>
<b>Total Liabilities</b>	<u>139,934</u>	<u>865,070</u>	<u>124,843</u>	<u>222,124</u>
<b>Net Assets:</b>				
Invested in Capital Assets, Net of Related Debt	19,315	—	456,037	852
<b>Restricted for:</b>				
Capital Projects	—	—	—	—
Debt Service	—	—	—	—
Nonexpendable	—	—	—	—
Lending Activities	—	231,131	—	24,477
Loans Receivable	12,224	—	—	—
Specific Component Unit Purposes	—	—	33,942	—
Unrestricted	<u>68,460</u>	<u>67,209</u>	<u>4,875</u>	<u>12,837</u>
<b>Total Net Assets</b>	<u>\$ 99,999</u>	<u>\$ 298,340</u>	<u>\$494,854</u>	<u>\$ 38,166</u>

The accompanying notes are an integral part of the financial statements.

Higher Education	Regional Jail Authority	Other Component Units	Total
\$ 326,013	\$ 32,903	\$32,084	\$ 441,162
408	10,893	8,342	19,643
61,157	11,541	2,226	124,853
15	—	—	15
19,382	3,026	3,130	30,784
4,680	403	75	7,669
655	—	792	7,045
—	—	6,786	71,922
—	—	—	13,826
—	—	84	84
<u>412,310</u>	<u>58,766</u>	<u>53,519</u>	<u>717,003</u>
12,380	—	—	12,380
42,092	—	—	221,451
4,515	—	—	4,515
—	217	729	47,806
—	—	—	148,982
—	—	—	1,093,436
—	—	473	11,828
<u>1,104,793</u>	<u>134,772</u>	<u>42,608</u>	<u>1,893,103</u>
<u>1,163,780</u>	<u>134,989</u>	<u>43,810</u>	<u>3,433,501</u>
<u>1,576,090</u>	<u>193,755</u>	<u>97,329</u>	<u>4,150,504</u>
34,612	5,702	861	44,897
10,034	—	—	20,444
66,236	861	888	97,752
1,894	1,202	453	4,250
41,453	—	261	41,714
12,850	3,585	—	101,119
5,234	—	437	6,471
<u>28,118</u>	<u>1,958</u>	<u>281</u>	<u>30,357</u>
<u>200,431</u>	<u>13,308</u>	<u>3,181</u>	<u>347,004</u>
—	—	—	4,195
—	—	—	122,334
—	—	6,071	51,242
—	600	—	2,454
393,104	97,810	—	1,523,079
24,081	—	12,146	46,963
<u>65,281</u>	<u>944</u>	<u>1,720</u>	<u>73,377</u>
<u>482,466</u>	<u>99,354</u>	<u>19,937</u>	<u>1,823,644</u>
<u>682,897</u>	<u>112,662</u>	<u>23,118</u>	<u>2,170,648</u>
711,814	29,875	39,915	1,257,808
37,164	25,976	—	63,140
7,491	1,153	—	8,644
3,047	—	—	3,047
—	—	—	255,608
—	—	—	12,224
74,275	—	3,857	112,074
<u>59,402</u>	<u>24,089</u>	<u>30,439</u>	<u>267,311</u>
<u>\$ 893,193</u>	<u>\$ 81,093</u>	<u>\$74,211</u>	<u>\$1,979,856</u>

**Combining Statement of Activities  
Discretely Presented Component Units  
For the Fiscal Year Ended June 30, 2003  
(Expressed in Thousands)**

		Program Revenues			
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue
	<u>Expenses</u>				
Component Units:					
Economic Development Authority	\$ 10,621	\$ 5,295	\$ —	\$ —	\$ (5,326)
Housing Development Fund	123,737	70,083	52,730	—	(924)
Parkways, Economic Development, and Tourism Authority	72,656	57,465	—	—	(15,191)
Water Development Authority	13,988	14,738	—	—	750
Higher Education	1,087,166	365,781	223,780	25,950	(471,655)
Regional Jail Authority	69,340	55,175	—	—	(14,165)
Other Component Units	<u>48,768</u>	<u>25,872</u>	<u>1,149</u>	<u>91</u>	<u>(21,656)</u>
Total Component Units	<u>\$1,426,276</u>	<u>\$594,409</u>	<u>\$277,659</u>	<u>\$26,041</u>	<u>\$ (528,167)</u>

General Revenue						
Unrestricted Investment Earnings	Miscellaneous	Payments from the State of West Virginia	Total General Revenue	Change in Net Assets	Net Assets, Beginning of Year, as Adjusted	Net Assets, End of Year
\$ 7,915	\$ 220	\$ —	\$ 8,135	\$ 2,809	\$ 97,190	\$ 99,999
15,458	—	—	15,458	14,534	283,806	298,340
2,313	—	2,934	5,247	(9,944)	504,798	494,854
1,249	79	—	1,328	2,078	36,088	38,166
7,685	37,928	452,373	497,986	26,331	866,862	893,193
1,402	5,717	—	7,119	(7,046)	88,139	81,093
284	1,073	25,114	26,471	4,815	69,396	74,211
<u>\$36,306</u>	<u>\$45,017</u>	<u>\$480,421</u>	<u>\$561,744</u>	<u>\$33,577</u>	<u>\$1,946,279</u>	<u>\$1,979,856</u>

**STATE OF WEST VIRGINIA  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

**NOTE 1**

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**The Reporting Entity**

The State of West Virginia is governed by elected officials. In accordance with GASB Statement No. 14, "The Financial Reporting Entity," these financial statements present the State (the primary government) and its component units. The component units discussed below are included in the State's reporting entity because of the significance of their operational or financial relationships with the State.

**Individual Component Unit Disclosures**

Accounting principles generally accepted in the United States define component units as those entities which are legally separate organizations for which the State's elected officials are financially accountable, or other organizations for which the nature and significance of their relationship with the State are such that exclusion would cause the State's financial statements to be misleading or incomplete. GAAP specifies two methods of presentation: blending the financial data of the component units' balances and transactions in a manner similar to the presentation of the State's balances and transactions or discrete presentation of the component units' financial data in columns separate from the State's financial data.

**Blended Component Units**

The entities below are legally separate from the State and meet the GAAP criteria for component units. These entities are blended with the primary government because they provide services entirely or almost entirely to the State.

**Armory Board**

The State Armory Board is governed by the Governor, the State Auditor, and the Secretary of State. Its activities are blended in the nonmajor special revenue funds of the State. The State Armory Board serves the State by providing facilities for the activities of the regiment of the National Guard.

### Transportation

The Division of Highways, within the Department of Transportation, is governed by a commissioner appointed by the Governor; it does not have a governing board separate from the State Legislature. It is a legally separate entity defined by the State Constitution. Since its operations are to improve the State's roads, Transportation is blended in the special revenue, debt service, and capital projects funds of the State.

### School Building Authority

The School Building Authority is governed by a ten-member board appointed by the Governor. The State Superintendent of Schools serves as President and three members are from the State Board of Education. The School Building Authority is blended in the nonmajor special revenue, debt service, and capital projects funds of the State since it exists to facilitate the State's responsibility for funding education. Its activities are designed to provide a financing vehicle for the acquisition, construction and maintenance of school facilities to meet the educational needs of the State.

### West Virginia Investment Management Board

The West Virginia Investment Management Board (IMB) is governed by a thirteen-member Board of Trustees. The IMB was created by West Virginia Code §12-6-1 to serve as the administrator, investor, and manager of the State's pension and operating funds. The Governor, the State Auditor, and the State Treasurer are members of the Board and the other members are appointed by the Governor. Because there is a financial benefit-burden relationship between the State and the IMB, and assets of the State and its component units comprise over 90% of the assets managed by the IMB, it is blended in the internal service funds of the State.

### West Virginia Lottery

The West Virginia Lottery is governed by a seven-member board appointed by the Governor. It was formed to assist the State in funding education and other basic governmental activities. This is accomplished by transferring the net profits of the games conducted by the Lottery to other accounts for uses including, but not limited to, debt service, education and promotion of tourism. Because the Lottery exists to provide funding entirely to the State, it is blended in the enterprise funds of the State.



## **Blended Component Unit Financial Statements**

Audited financial statements for these blended component units, other than the Armory Board which is not separately audited, can be obtained directly from their respective administrative offices.

### **Administrative Offices:**

School Building Authority  
Finance Division  
2300 Kanawha Blvd., East  
Charleston, WV 25311

Transportation  
1900 Kanawha Boulevard, E.  
Building 5, Room A109  
Charleston, WV 25305

West Virginia Investment  
Management Board  
500 Virginia Street East  
Suite 200  
Charleston, WV 25301

West Virginia Lottery  
P.O. Box 2967  
Charleston, WV 25327

## **Discretely Presented Component Units**

Discretely presented component units are entities which are legally separate from the State, but are financially accountable to the State, or whose relationship with the State is such that exclusion would cause the State's financial statements to be misleading or incomplete. Because of the nature of the services they provide and the State's ability to impose its will on them, the following component units are discretely presented in accordance with GASB Statement No. 14. The State has both governmental (providing services to the government) and proprietary (providing services to external parties) component units. The component units are presented in a single column on the government-wide statements.

*The major component units are comprised of the following entities:*

### **Economic Development Authority**

The Economic Development Authority (EDA) is administered by a nine-member board composed of the Governor, Secretary of Tax and Revenue, and seven other members appointed by the Governor. EDA is responsible for developing and advancing the business prosperity and economic welfare of the State. EDA is authorized to make loans, including direct financing and operating leases to industrial development agencies for the promotion and retention of new and existing commercial and industrial development. EDA is

empowered to borrow money and issue bonds (with approval of the State), notes, commercial paper and other debt instruments to furnish money for the enhancement of business development projects and has the ability to establish loan terms, including interest rates, at its discretion. EDA promotes economic development among private industries, and though its services benefit the State by increasing the tax base, its primary function is to provide jobs.

#### Housing Development Fund

The Housing Development Fund (HDF) is governed by an eleven-member board consisting of the Governor, the Attorney General, the Commissioner of Agriculture, the State Treasurer, and seven other members appointed by the Governor. HDF is responsible for providing residential housing programs for low-income and moderate-income families, elderly persons, and other eligible persons and families, as well as financing certain nonresidential projects. It is empowered to issue bonds which are payable from the mortgage payments. The assets and revenues of the bond programs of the HDF are restricted by resolution to repay the outstanding debt.

#### Parkways, Economic Development and Tourism Authority

The Parkways, Economic Development and Tourism Authority (the Authority) is composed of seven members. The Secretary of the Department of Transportation serves as its chairperson and six members are appointed by the Governor. Its responsibilities include the operation and maintenance of the West Virginia Turnpike (the Turnpike) as well as economic development and tourism for areas within 75 miles of the Turnpike. The Authority can also issue bonds and set the rates for using the Turnpike.

#### Water Development Authority

The Water Development Authority (the Authority) is governed by a seven-member board consisting of the Director of the Division of Environmental Protection, the Commissioner of the Bureau for Public Health, a state official designated annually by the Governor as the most responsible for economic or community development, and four public members appointed by the Governor. The Authority is responsible for assisting in the preservation, protection, improvement, and management of the State's water resources. The Authority oversees a loan pool program which provides low-interest financing to local governments for water and wastewater projects. The Authority issues bonds to fund the loan pool and uses the proceeds to purchase local government revenue bonds. The revenue bonds are payable solely from the revenues of the projects. The Authority also serves as the financial administrator of the West Virginia Infrastructure and Jobs Development Council (a major governmental fund) and the West Virginia Water Pollution Control Revolving Fund (an enterprise fund).

## Higher Education

Each college and university in the Higher Education Fund (the Fund) is governed by a Governing Board, which is responsible for the general determination, control, supervision and management of the financial business and educational policies and affairs of the institution(s). The West Virginia Higher Education Policy Commission (the Policy Commission), in accordance with Senate Bill No. 653, is the single accountability point responsible for developing, gaining consensus around and overseeing the implementation and development of a higher education public policy agenda. It is comprised of nine persons appointed by the Governor with the advice and consent of the Senate. The Policy Commission is responsible for preparing and submitting a consolidated budget and allocating state appropriations to supplement institutional operating revenues.

The Fund is comprised of the following: Bluefield State College, Concord College, Eastern West Virginia Community and Technical College, Fairmont State College, Glenville State College, Marshall University (and Graduate College), Shepherd College, Southern West Virginia Community and Technical College, West Liberty State College, West Virginia Higher Education Policy Commission, West Virginia Network for Educational Telecomputing, West Virginia Northern Community and Technical College, West Virginia State College, West Virginia School of Osteopathic Medicine, and West Virginia University (including Potomac State College, West Virginia University Institute of Technology, and West Virginia University at Parkersburg regional campuses).

## Regional Jail and Correctional Facility Authority

The Regional Jail and Correctional Facility Authority (hereafter referred to as the Regional Jail Authority) is governed by a seven-member board of which five members are appointed by the Governor. It was formed to replace individual county jails with regional jails. Along with the state correctional institutions, the Regional Jail Authority is part of the consolidated penal system of this State. Although the construction of additional jails is ongoing, the operating focus has become the confinement of prisoners and existing jail operations. A majority of the operations, as well as a majority of the debt service, are financed by per diem fees for prisoners and court fees rather than appropriations from the State. No bonds or other obligations may be issued until the Legislature has approved the purpose and amount of each project.

*The nonmajor component units are comprised of the following entities:*

#### Educational Broadcasting Authority

The Educational Broadcasting Authority (EBA) consists of eleven members. Seven members are appointed by the Governor. The other four members include the State Superintendent of Schools, one member from the West Virginia Board of Education, and two members from the West Virginia Higher Education Policy Commission. EBA is responsible for extending educational, cultural, and informational experiences to all State citizens. This is accomplished through the construction and operation of noncommercial educational television and radio stations and related facilities statewide. EBA provides statewide telecommunication services for other state and public service agencies for nonbroadcasted activities such as teleconferencing, in-service training, and data delivery. EBA's revenues are derived primarily through donations, with a portion of operational costs supplemented by state and federal grants.

#### Jobs Investment Trust

The Jobs Investment Trust (the Trust) consists of thirteen members. Eight members are appointed by the Governor and the remaining members include the president of West Virginia University, the president of Marshall University, the chancellor of the West Virginia Higher Education Policy Commission, the executive director of the West Virginia Housing Development Fund, and the executive director of the West Virginia Development Office. The Trust is responsible for improving and promoting economic development in the State, primarily through the issuance of loans to businesses that will stimulate economic growth and provide or retain jobs in the State.

#### West Virginia State Rail Authority

The West Virginia State Rail Authority (Rail Authority) consists of seven members. Six members are appointed by the Governor and the seventh member is the Secretary of the Department of Transportation. The Rail Authority is responsible for the rehabilitation, improvement, and restoration of the financial stability of the railway system in the State. It can issue bonds and set rates for the rail system. The Rail Authority receives federal and state grants to supplement its cost of operations.

### **Solid Waste Management Board**

The Solid Waste Management Board (the Board) is composed of seven members. Five members are appointed by the Governor and the remaining members are the Secretary of the Department of Health and Human Resources and the Director of the Division of Environmental Protection. The Board is responsible for improving collection and disposal of solid wastes and encouraging recycling, reuse, and recovery of resources from wastes. The Board is the financing mechanism for solid waste projects and is empowered to issue bonds (with approval of the Water Development Authority) and set a rate structure.

### **Racing Commission**

The Racing Commission consists of three members appointed by the Governor, by and with the consent of the Senate. The Racing Commission has full jurisdiction over and shall supervise all horse race meetings, all dog race meetings, and all persons involved in the holding and conducting of horse and dog race meetings. It has the power to set fees and grant licenses and permits pertaining to horse and dog race meetings, as well as regulate the horse and dog race wagering.

### **Public Defender Corporation**

The Public Defender Corporation represents the combined nonprofit corporations, created under authority of Article 21, Chapter 29 of the West Virginia Code for the purpose of fulfilling the State's obligation to provide legal representation to eligible clients. Funding of the individual public defender corporations is by appropriation disbursed in periodic allotments determined by the executive director of the Public Defender Services, who is appointed by the Governor. The governing body of each public defender corporation is a Board of Directors appointed by the county commissions and the Governor.

### **Discretely Presented Component Unit Financial Statements**

Complete financial statements of the individual component units can be obtained directly from their respective administrative offices.

#### **Administrative Offices:**

Economic Development Authority  
1018 Kanawha Boulevard  
Suite 501  
Charleston, WV 25301

Housing Development Fund  
814 Virginia Street, East  
Charleston, WV 25301-2877

Parkways, Economic Development  
and Tourism Authority  
P.O. Box 1469  
Charleston, WV 25325-1469

Water Development Authority  
180 Association Drive  
Charleston, WV 25311-1571

Higher Education Policy Commission  
Administrative Services  
1018 Kanawha Boulevard, East  
Suite 700  
Charleston, WV 25301

Regional Jail Authority  
1325 Virginia Street, East  
Charleston, WV 25301

Educational Broadcasting Authority  
600 Capitol Street  
Charleston, WV 25301

Jobs Investment Trust  
814 Virginia Street, East  
Suite 202  
Charleston, WV 25301-2877

West Virginia State Rail Authority  
120 Water Plant Drive  
Washington Street, East  
Moorefield, WV 26836-0470

Solid Waste Management Board  
615 Washington Street, East  
Charleston, WV 25311-2126

Racing Commission  
106 Dee Drive  
Charleston, WV 25311

West Virginia Public  
Defender Corporation  
1900 Kanawha Boulevard, East  
Building 3, Room 330  
Charleston, WV 25305

### **Basis of Presentation**

The accompanying basic financial statements of the State of West Virginia (the State) conform to accounting principles generally accepted in the United States (GAAP) for governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for governmental accounting and financial reporting. In addition, GAAP requires that the State's proprietary activities apply GAAP in a similar manner as applied for business activities in the private sector. As a result, the financial statements of certain component units follow the specialized reporting practices of the insurance, housing finance agency and other not-for-profit industries, as prescribed by the GASB and other authoritative sources, including pronouncements of the Financial Accounting Standards Board (FASB).



As allowed by GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Funds that Use Proprietary Fund Accounting," the State and the majority of its component units have elected not to adopt FASB Statements or Interpretations issued after November 30, 1989, unless the GASB specifically adopts such FASB Statements or Interpretations. The IMB, the Educational Broadcasting Authority, and the Public Defender Corporation have elected to follow all FASB Statements and Interpretations, APB Opinions and ARBs, except those that conflict with or contradict GASB pronouncements.

The basic financial statements have been prepared primarily by the Financial Accounting and Reporting Section (FARS) of the Department of Administration from accounts maintained by the State Auditor's Office, the State Treasurer's Office, and the Investment Management Board. Additional data has been derived from the audited financial statements of certain entities and from reports and data prepared by various state agencies and departments, based on independent or subsidiary accounting records maintained by them.

Certain fund balance and net asset accounts presented for the preceding year have been restated or reclassified. See Note 2 for further explanation.

## **Government-wide and Fund Financial Statements**

### Government-wide Financial Statements

The government-wide financial statements, which are the statement of net assets and the statement of activities, report information on all the nonfiduciary activities of the primary government and its component units. These activities are reported as governmental activities, business-type activities or component units. The governmental activities are normally supported by taxes, intergovernmental revenues, and other nonexchange revenues and are reported separately from the business-type activities. The business-type activities rely significantly on fees and charges to external parties for their support. The primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of net assets presents the State's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes and other debt that is attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints are placed on net asset use by external creditors, grantors, contributors, etc. or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets which do not meet the definition of the two preceding categories. Unrestricted net assets are often designated, to indicate that management does not consider them available for general operations. They also often have constraints on resources imposed by management, but can be removed or modified.

The statement of activities demonstrates the degree to which the direct expenses of a given function or program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or program. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or program and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or program. Taxes and other items not properly included in program revenues are reported as general revenue.

### Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide statements. Major individual governmental funds and major individual proprietary funds are reported as separate columns in the fund financial statements, with nonmajor funds being combined into a single column.

### **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they become both measurable and available. "Available" means expected to be collectible within the current period or soon enough thereafter to be used to pay liabilities

of the current period. Significant revenues susceptible to accrual include income, sales and use, corporation and other taxes, federal awards, federal reimbursements, and other reimbursements for use of materials and services. Revenues from federal awards are recognized when the related expenditures have been incurred. Receipts and disbursements of U.S. Government food stamps are accounted for in the General Fund. Revenues and expenditures have been recognized when the food stamps were physically given to recipients and all transactions were recorded at face value. The electronic benefits transfer (EBT) process was phased in during fiscal year 2003, eliminating actual food stamps and the need for year-end balance sheet entries for food stamp inventory. Under the EBT system food stamp revenue recognition equal to expenditures is recognized when the underlying transaction (food purchase) occurs. Revenues from other sources are recognized when received.

Expenditures generally are recorded when the related liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to retirement costs, compensated absences, and claims and judgments, are recorded only when payments are due.

### **Governmental Fund Types**

Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than certain debt service activities and major capital projects) that are legally restricted to expenditures for specified purposes.

Debt Service Funds are used to account for the accumulation of resources for, and the payment of, principal and interest on general long-term indebtedness.

Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and infrastructure projects (other than those financed by proprietary funds).

Permanent Funds are used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that benefit the State or its citizenry. The Irreducible School Fund was constitutionally established for educational purposes and the earnings on the Tobacco Settlement Medical Trust Fund are to support certain health programs of the State.

*The State reports the following major governmental funds:*

The General Fund is the primary operating fund of the State. It is used to account for all financial resources obtained and spent for those services normally provided by the State

(e.g., health, social assistance, public safety, primary and secondary education), which are not required to be accounted for within other funds.

Transportation has responsibility for the construction, maintenance, and improvement of all state roads; development of public transportation facilities, services, equipment, and methods; and supervision and control of commercial, state, and municipal airports and ports.

The West Virginia Infrastructure and Jobs Development Council coordinates the review and funding of water, wastewater, and economic development projects within the State.

### **Proprietary Fund Types**

Enterprise Funds are used to account for operations of those state agencies providing goods or services to the general public on a user-charge basis, or where the State has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. This fund type is also used when the activity is financed with debt that is secured by a pledge of the net revenues from the fees and charges of the activity. These funds include the State's risk management and insurance funds as well as the West Virginia Lottery, the Alcohol Beverage Control Administration, two water treatment loan programs and the West Virginia Prepaid College Plan.

Internal Service Funds account for the operations of those state agencies that provide goods and services to other state agencies and governmental units on a cost-reimbursement basis. These services include government building and vehicle maintenance and leasing, data processing functions, and the investment and management of state funds. In the government-wide statements, internal service funds are included with governmental activities.

*The State reports the following major enterprise funds:*

The West Virginia Lottery accounts for lottery ticket revenue, administrative and operating expenses and distribution of net revenue to the General Fund.

The Water Pollution Control Revolving Fund provides low interest loans to communities to upgrade or establish sewer service, to clean up the State's water supply, and assist local governmental entities in complying with the Clean Water Act.

The Workers' Compensation Fund provides compensation for injury or illness sustained during the course of employment.

Employment Security operates local offices throughout the State to serve those seeking and providing employment, through interviewing, testing, counseling and referral to placement, training, and other services designed to ready individuals for employment. Additionally, the State reports the following fund types:

### **Fiduciary Fund Types**

Pension Trust Funds report resources that are required to be held in trust for the members and beneficiaries of the State's defined benefit plans and defined contribution plan.

Investment Trust Funds report resources in external investment pools that belong to local governments and municipalities.

Private Purpose Trust Funds report resources of all other trust arrangements in which principal and income benefit individuals, private organizations or other governments. The Smart 529 College Savings Plan allows citizens to defer taxes on earnings for college tuition.

Agency Funds are used to account for assets held by the State as an agent for individuals, private organizations or other funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations. Taxes that will be remitted to respective local governments and hospital patient and inmate funds are examples of the State's agency funds.

### **Interfund Activity and Balances**

As a general rule, the effect of interfund activity has been eliminated from the government-wide statements. Exceptions to this rule are: activities between funds reported as governmental activities and funds reported as business-type activities; and activities between funds that are reported in different functional categories in either the governmental or business-type activities column. Elimination of these activities would distort the direct costs and program revenues for the functions concerned.

In the fund financial statements, transfers represent flows of assets without equivalent flows of assets in return or a requirement for repayment. In addition, transfers are recorded when a fund receiving revenue provides it to the fund expending the resources. An example is lottery proceeds collected by the West Virginia Lottery, but expended by the Department of Education.

Interfund receivables and payables have been eliminated from the Statement of Net Assets, except for the residual amounts due between governmental and business-type activities.

## **Budgetary Basis of Accounting**

The State's budget is adopted in accordance with a statutory basis of accounting which does not conform to GAAP. Revenues are generally recognized when cash is received. Expenditures generally are recorded when the related cash disbursement occurs. At year-end, accounts payable and accrued payroll and related benefits are recognized to the extent they are paid as of July 31, if the goods or services have been encumbered by June 30. If encumbered goods or services are not received by July 31, such encumbrances lapse; therefore, no reserve for encumbrances is reported at year-end. See related budgetary comparison schedule and note in Required Supplementary Information for more details on budgetary matters.

## **Assets and Liabilities**

Cash and Cash Equivalents - Cash equivalents are short-term investments with maturities, when purchased, of three months or less. The State Treasurer principally deposits the State's cash in investment pools maintained by the IMB, and such deposits are generally available with overnight notice. Deposits in the IMB pools that are 2a-7-like pools are reported at amortized cost, which approximates the fair value of underlying securities. Cash deposits in outside bank accounts are considered to be cash and cash equivalents.

Investments - Amounts reported as investments include certain deposits with the IMB that are maintained in investment pools having long-term investment securities designated as trading securities or established to acquire participant-directed securities. Such amounts also include other investments maintained outside the IMB's authority. Investments are carried at fair value, with the exception of certain assets, which are reported at amortized cost. The fair value of investments is derived primarily from a third-party pricing service based on asset portfolio pricing models and other sources. Futures and option contracts are valued at the last settlement price established each day by the exchange on which they are traded. Investments in commingled investment pools are valued at the reported unit values of the individual funds. The State participates in three external investment pools managed by the IMB. Two are considered 2a-7-like pools and are reported at amortized cost. The third is a longer-term investment pool that carries investments at fair value. Unit transactions in this pool are priced at the pool's current net asset value which fluctuates with changes in the fair value of its investments. Because fair value of the investments of the State Building Fund approximates amortized cost, no noncash change in fair value is reported.



Inventories - Consumable inventories, consisting of expendable materials and supplies held for consumption, are valued and reported for financial statement purposes. Materials and supplies inventories are physically counted and valued at LIFO, FIFO and average cost at year-end. Inventories of governmental funds are recorded using the consumption method. A reservation of fund balance is recorded for the ending inventory amount, indicating that inventory does not constitute "expendable available financial resources." Proprietary fund and component units' inventories are valued at the lower-of-cost or market, cost being determined on the first-in, first-out method, and are expensed when used.

Tuition Contracts - Revenue related to tuition contracts within the West Virginia Prepaid College Plan (the Plan) is recorded in the year contracts are entered into with the purchaser. Tuition contract revenue is recorded at the present value of future contract payments adjusted for estimated cancellations. Application fees are recognized as revenue when received. Tuition contracts receivable at the balance sheet date represents the Program Management's best estimate of the present value of future contract payments using a 7.25% discount rate. An accrued contract benefits liability is recognized based upon the actuarial present value of the future tuition contract obligation. This valuation method reflects the present value of estimated tuition contract benefits that will be paid in future years and is adjusted for the effects of projected tuition and fee increases and termination of contracts. When a beneficiary of the prepaid tuition program is accepted to an eligible college or university, the contract becomes redeemable. Benefits can be transferred to any fully accredited private or out-of-state college or university within the United States in an amount based on the average cost of tuition and fees then charged by West Virginia public colleges and universities. While a beneficiary has up to ten years after high school to use the Plan benefit, four other options are available: 1) the purchaser may transfer the contract benefits to an eligible substitute beneficiary; 2) at any time four years or more after the beneficiary's expected college entrance date, the purchaser may request a refund of the contract benefit value, less a termination fee and an earnings penalty required by federal law; or 3) at any time, the purchaser may cancel the contract and receive a refund of payments made, less administrative fees and any benefits already paid; or 4) the purchaser may transfer the prepaid contract value to the Program's Savings Plan in accordance with state and federal regulations.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are recorded at historical cost, or at estimated historical cost if actual historical cost is not available. Donated fixed assets are recorded at fair market value or estimated fair market value at the time of the donation. In accordance with the capitalization policy adopted by the State for financial reporting, equipment in excess of

\$25,000 is capitalized. Certain small blended component units follow other capitalization policies which range from \$5,000 to \$25,000 for equipment. The Higher Education component unit uses a \$1,000 threshold. Buildings and improvements which extend the useful lives and/or significantly increase values of capitalized buildings with a combined value in excess of \$100,000 are capitalized. All land, regardless of acquisition price, is capitalized. Infrastructure is capitalized for the first time in fiscal year 2002. The Department of Transportation is using \$1 million as a threshold for capitalization. Other agencies are capitalizing all infrastructure assets.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

The capital assets are depreciated over their estimated useful lives using the straight-line depreciation method. Amortization of capital lease assets is included with depreciation expense. Equipment, depending on type, is depreciated over 3-20 years. Buildings are depreciated over various lives, ranging from 20-50 years. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets. The infrastructure assets are depreciated over a period of 20-50 years.

The State possesses certain capital assets that have not been capitalized and depreciated, including works of art and historical treasures, such as monuments, historical documents, paintings, antiques, pioneer, Indian, and Civil War artifacts, etc. GASB Statement No. 34 does not require the capitalization of works of art and historical treasures if they meet certain criteria.

Insurance Enterprises and Obligations - The Board of Risk and Insurance Management, (BRIM), the Public Employees' Insurance Agency (PEIA) and the Workers' Compensation Fund (WCF) each represent and are accounted for as insurance enterprise funds of the State. These funds follow the guidance of GASB Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues," and GASB Statement No. 30, "Risk Financing Omnibus." BRIM and PEIA are considered public entity risk pools (enterprise funds). WCF is considered an insurance enterprise fund and follows the guidance of the Financial Accounting Standards Board Statement No. 60, "Accounting and Reporting for Insurance Enterprises," as well as the GASB Statements. Each organization has included the required supplemental information (in accordance with GASB Statement No. 30) in its separately audited financial statements.

Advances - The amount of Economic Development Authority loans held by the State's General Fund at June 30, 2003, is approximately \$122.3 million and is recorded as Advances to/from Component Units.

Long-Term Liabilities - In the government-wide financial statements and proprietary fund financial statements, long-term obligations, including claims and judgments, environmental obligations and compensated absences, are reported as liabilities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method, which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Compensated Absences - Employees accumulate annual leave (vacation) balances to maximum amounts ranging from 240 to 320 hours. Most employees receive a 100% termination payment upon separation based upon their final rate of pay. The liability for annual leave is valued at 100% of the balance plus the State's share of Social Security and retirement contributions. In lieu of a cash payment, at retirement an employee can elect to use accumulated annual leave toward their postemployment health care insurance premium. State employees earn sick leave benefits, which accumulate, but do not vest. When separated from employment with the State, an employee's sick leave benefits are considered ended and no reimbursement is provided. However, eligible employees may convert, at the time of retirement, any unused accumulated sick leave to pay a portion of the employee's postemployment health care insurance premium. If this option is not selected, the leave amount may be applied toward an increase in the employee's retirement benefits with such sick leave constituting additional credited service in computation of such benefits. These options and computations may occur for state employees under the State's retirement systems. Currently, the computation of compensated absences does not include the projected unused sick leave portion expected to be elected as additional credited service towards retirement. However, the unused portion of sick leave that is expected to be converted to additional credited service for retirement benefits is considered in the actuarial valuation used to calculate the net pension obligation. The liability for accumulated sick leave for employees has been recorded in accordance with GASB Statement No. 16, "Accounting for Compensated Absences," using the vesting method.

Net Assets/Fund Balance - The difference between fund assets and liabilities is "Net Assets" on the government-wide, proprietary, and fiduciary fund statements, and "Fund Balance" on governmental fund statements.

Reservations - Fund balances for governmental funds are classified as either reserved or unreserved in the fund financial statements. Reserved fund balances reflect funds legally segregated for a specific use or assets which, by their nature, are not available for expenditure. Unreserved fund balances reflect the balances available for appropriation for the general purposes of the fund.

Revenues and Expenditures/Expenses - In the government-wide Statement of Activities, revenues and expenses are segregated by activity (governmental or business-type), then further by function (e.g., administration, education, transportation, etc.). Additionally, revenues are classified between program and general revenues. Program revenues include: charges to customers or applicants for goods, services, or privileges provided; operating grants and contributions; and capital grants and contributions. Internally dedicated resources are reported as general revenues, rather than as program revenue. General revenues include all taxes. Certain indirect costs are included in the program expenses reported for individual functions.

In the governmental fund financial statements, revenues are reported by source. For budgetary control purposes, revenues are further classified as either "general purpose" or "restricted." General purpose revenues are available to fund any activity accounted for in the fund. Restricted revenues are, either by State law or by outside restriction (e.g., federal awards), available only for specified purposes. Unused restricted revenues at year-end are recorded as reservations of fund balance. When both general purpose and restricted funds are available for use, it is the State's policy to use restricted resources first.

In the governmental fund financial statements, expenditures are reported by character: "Current," "Capital Outlay," or "Debt Service." Current expenditures are subclassified by function and are for items such as salaries, grants, supplies, and services. Capital outlay includes expenditures for real property or infrastructure. Debt service includes both interest and principal outlays related to bonds and payments on capital leases.

Revenues and expenses of proprietary funds are classified as operating or nonoperating and are subclassified by object (e.g., sales, depreciation, etc.). Operating revenues and expenses generally result from providing services and producing and delivering goods. All other revenues and expenses are reported as nonoperating.

Other Financing Sources - These additions to governmental fund balances in the fund financial statements include resources and financing provided by bond proceeds, capital leases, and transfers from other funds.

Other Financing Uses - These reductions of governmental fund resources in the fund financial statements normally result from transfers to other funds.

Interfund Services Provided and Used - When a sale or purchase of program-related goods and/or services between funds occurs, for a price approximating their external exchange value, the seller reports revenue and the purchaser reports an expenditure or expense, depending on the fund type. Transactions between the primary government and a discretely presented component unit are generally classified as revenues and expenses, unless they represent repayments of loans or similar activities.

### **Future Adoption of Accounting Pronouncements**

The GASB has issued Statement No. 39, "Determining Whether Certain Organizations Are Component Units." This statement amends GASB Statement No. 14, "The Financial Reporting Entity," providing additional guidance on the inclusion of certain affiliated organizations that raise and hold economic resources for the direct benefit of a governmental unit. The State will implement this standard for the fiscal year ending June 30, 2004, and has not yet estimated the impact of adoption of this pronouncement. Statement No. 40, "Deposit and Investment Risk Disclosures – an amendment of GASB Statement No. 3," addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. The State will implement this standard for fiscal year ending June 30, 2005, but has not yet estimated the impact of adoption of this pronouncement. Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries," establishes accounting and reporting standards for impairment of capital assets and clarifies the accounting requirements for insurance recoveries. The State will implement this standard for the fiscal year ending June 30, 2006, but has not yet estimated the impact of this pronouncement.

The GASB currently has exposure drafts outstanding related to accounting and financial reporting by employers for postemployment benefits other than pensions (OPEBs). These new accounting standards have not been finalized at present; however, upon finalization it is expected that the OPEB obligation will need to be actuarially determined; an annual actuarially determined contribution (ARC) in accordance with the GASB requirements will be required; an OPEB obligation and related expense will need to be recorded; and there will be additional disclosures. Management has not completed the complex analysis that will be required to comply with the proposed standards, which if approved in their present form would not be effective for the State until the period beginning after June 15, 2006 (fiscal year 2007). Accordingly, the State cannot reasonably estimate the impact on the financial statements of implementing the new standards. However, based on the current level of expenditures/expenses and other preliminary analysis of the OPEB obligation, management expects that the implementation of the proposed standards, if approved in their present form, will have a material effect on financial position, changes in financial position, and cash flows reflected in the financial statements.

**NOTE 2****RESTATEMENTS, RESERVED, AND RESTRICTED BALANCES****Governmental Activities:*****Transportation***

During the current year it was determined that an undercapitalization of Transportation's infrastructure assets had occurred in the initial implementation of the provisions of GASB Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments." Certain projects that met the capitalization criteria were excluded from Construction in Progress and other projects that were completed were not properly capitalized into infrastructure. This undercapitalization of infrastructure assets had no impact on the fund financial statements for the year ended June 30, 2002. The following summarizes the impact of this undercapitalization of infrastructure assets on the government-wide financial statements:

	<u>As Previously Reported</u>	<u>Adjustment</u>	<u>Restated</u>
Total Capital Assets	\$5,679,425	\$320,996	\$6,000,421
Total Assets	6,066,083	320,996	6,387,079
Net Assets-Investments in			
Capital Assets, Net of Related Debt	5,219,277	320,996	5,540,273
Total Net Assets	5,317,580	320,996	5,638,576
Total Expenses	1,092,612	(268,740)	823,872
Change in Net Assets	(42,958)	268,740	225,782

As a result of the above, the governmental activities beginning net assets on the Statement of Activities changed from \$5,398,223 to \$5,719,217.

**Internal Service Funds:*****State Building Fund***

The beginning cash and cash equivalents of the State Building Fund was restated from \$6,097 to \$17,820. It was determined that certain investments should have previously been recorded as cash equivalents.

**Discretely Presented Component Units:*****Other Component Units - WV State Rail Authority***

It was determined that certain amounts previously recorded for rail properties had been disposed of over a period of years due to capital improvement projects undertaken by the WV State Rail Authority (the Authority). During the year the Authority conducted an



extensive review of rail properties and determined the amount to be removed for prior years' retirements. The effect on the removal of these assets from the records of the Department's financial statements impact only the amounts reported for the Authority for the year ended June 30, 2002, as follows:

	<u>As Previously Reported</u>	<u>Adjustment</u>	<u>Restated</u>
Total Capital Assets	\$34,455	\$(3,934)	\$30,521
Total Assets	36,777	(3,934)	32,843
Net Assets-Investments in Capital Assets, Net of Related Debt	32,217	(3,934)	28,283
Total Net Assets	33,520	(3,934)	29,586
Loss on Disposal	(515)	(448)	(963)
Change in Net Assets	1,987	(448)	1,539

## Reserved Fund Balance

The following tables summarize the Reserved Fund Balance of funds included in "other" columns at June 30, 2003 (expressed in thousands):

<u>Fund Type/ Fund</u>	<u>Total Reporting Entity</u>	<u>Inventory</u>	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Program Administration</u>	<u>Permanent Funds</u>
Governmental Funds						
Special Revenue Funds:						
Employment Programs	\$ 4,011	\$127	\$ —	\$ —	\$3,884	\$ —
Debt Service Funds:						
School Building Authority	59,787	—	—	59,787	—	—
West Virginia Infrastructure and Jobs Development Council	75	—	—	75	—	—
Education, Arts, Sciences, and Tourism Fund	24,394	—	—	24,394	—	—
Lease Purchase Accounts	<u>11,816</u>	<u>—</u>	<u>—</u>	<u>11,816</u>	<u>—</u>	<u>—</u>
	<u>96,072</u>	<u>—</u>	<u>—</u>	<u>96,072</u>	<u>—</u>	<u>—</u>
Capital Projects Funds:						
State Road	31,430	—	31,430	—	—	—
School Building Authority	107,548	—	107,548	—	—	—
Education, Arts, Sciences, and Tourism Fund	101	—	101	—	—	—
Lease Purchase Accounts	<u>53,888</u>	<u>—</u>	<u>53,888</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>192,967</u>	<u>—</u>	<u>192,967</u>	<u>—</u>	<u>—</u>	<u>—</u>
Permanent Funds:						
Irreducible School	1,807	—	—	—	—	1,807
Tobacco Settlement Trust	<u>140,096</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>140,096</u>
	<u>141,903</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>141,903</u>
Total	<u>\$434,953</u>	<u>\$127</u>	<u>\$192,967</u>	<u>\$96,072</u>	<u>\$3,884</u>	<u>\$141,903</u>

The General Fund amounts reserved for specific fund purposes include the following:

Other Legally Segregated Accounts*	\$107,983
Long-Term Receivables	<u>2,737</u>
Total	<u>\$110,720</u>

\*These legally segregated accounts include flood disaster accounts, funds collected on behalf of injured third parties, certain education funds, certain wildlife and conservation funds, escrow accounts, and the Governor's Civil Contingency Fund.

### Designated Fund Balance

Designation of fund balance in the governmental funds of \$92,620,000 represents commitments of the West Virginia Infrastructure and Jobs Development Council to loan funds to applicants for infrastructure projects. After year-end and through August 31, 2003, loan and grant agreements were executed for approximately \$6 million of these funds.

### Restricted Net Assets

The following tables summarize the Restricted Net Assets of funds included in "other" columns at June 30, 2003 (expressed in thousands):

<b>Fund Type/ Fund</b>	<b>Total Reporting Entity</b>	<b>Capital Projects</b>	<b>Program Administration</b>	<b>Lending Activities</b>	<b>Insurance Activities</b>	<b>Other Specific Fund Purposes</b>
Enterprise Funds:						
Board of Risk and Insurance Management	\$16,829	\$ —	\$ —	\$ —	\$16,829	\$ —
Drinking Water Treatment Revolving Fund	30,749	—	—	30,749	—	—
West Virginia Prepaid College Plan	<u>9</u>	<u>—</u>	<u>9</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>47,587</u>	<u>—</u>	<u>9</u>	<u>30,749</u>	<u>16,829</u>	<u>—</u>
Internal Service Funds:						
State Building Fund	<u>18,973</u>	<u>18,973</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Component Units:						
Educational Broadcasting Authority	2,785	—	—	—	—	2,785
Solid Waste Management Board	<u>1,072</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,072</u>
	<u>3,857</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>3,857</u>
Total	<u>\$70,417</u>	<u>\$18,973</u>	<u>\$ 9</u>	<u>\$30,749</u>	<u>\$16,829</u>	<u>\$3,857</u>

## **NOTE 3**

### **FUND DEFICITS**

Individual funds with net asset deficits at June 30, 2003, were as follows (expressed in thousands):

	<u><b>Net Asset Deficit</b></u>
<b>Enterprise Funds:</b>	
Workers' Compensation Fund	\$3,101,680
Board of Risk and Insurance Management	39,246
West Virginia Prepaid College Tuition Plan	<u>13,555</u>
Total Deficits	<u><b>\$3,154,481</b></u>

### **Enterprise Funds**

Workers' Compensation Fund deficit of \$3,101,680,000 and Board of Risk and Insurance Management deficit of \$39,246,000 are more fully discussed in Note 14, Risk Management.

West Virginia Prepaid College Tuition Plan (the Plan) has a net assets deficiency of approximately \$13.5 million as of June 30, 2003. This deficiency was largely caused by investment losses last year, unexpected tuition increases beginning with the 2002-2003 school year, and changes last year in estimates of future investment rates of return and tuition growth. The Plan's continued existence is dependent on its ability to realize future long-term investment earnings at least equal to its average annual earnings assumptions, to establish prices for new contracts that are at least commensurate with the annual increases in average tuition at state public colleges and universities, and to attain satisfactory levels of future cash flows from operations. In response to this situation, the Plan developed a financial stability plan that included a 10% reserve in future contract prices, an adjustment to contract prices every four months to account for any expected or possible changes in earnings and tuition growth during the year, and additional support from the State.

The Plan sought and received support from the State Legislature in the form of a pledge of assets from the State Unclaimed Property Trust Fund (the Fund) to support payment of Plan benefits. In March 2003, the Legislature created the Prepaid Tuition Trust Escrow Account to guarantee payment of Plan contracts. The Escrow Account will receive transfers of up to \$500,000 from the Fund each year there is an actuarially determined unfunded liability of the Plan. All earnings on the transferred funds will remain in the Escrow Account. In the event the Plan is unable to cover the amount of money needed to meet its current obligations, funds may be withdrawn from the Escrow Account to meet those obligations. As of June 30, 2003, there was an actuarially determined unfunded liability of approximately \$13.5 million in the Plan; therefore, in accordance with the provisions enacted by the Legislature, \$500,000 was transferred from the Fund to the Escrow Account in December 2003. Funds transferred or to be transferred into the Escrow Account do not affect the actuarial valuation of the Plan and are not included in the Plan's financial statements.

Also in March 2003, the West Virginia Legislature closed the Plan to new enrollment until the Legislature authorizes it to reopen. The Plan will continue in existence and no current contracts will be affected by the closure. Contract holders will continue to pay any amounts due, and the Plan will continue to pay all benefits due. It is unknown what affect, if any, the closure to new enrollment will have on the financial position of the Plan.

Although the Plan has a net asset deficit, it is believed that it will continue to have sufficient liquid resources to meet its obligations as they become due through June 30, 2004. However, the accompanying financial statements do not reflect any adjustments that might result from the outcome of this uncertainty should the Plan fail to be successful.

**NOTE 4****CASH AND INVESTMENTS****Cash**

At June 30, 2003, information concerning the amount of deposits with financial institutions, including deposits of the State Treasurer's Office, is as follows (expressed in thousands):

	<u>Primary Government</u>	<u>Discretely Presented Component Units</u>	<u>Total Reporting Entity</u>
Carrying Amount of Deposits	\$(105,557)	\$139,368	\$33,811
Bank Balance of Deposits	38,921	100,660	139,581
Amount Insured or Collateralized	38,868	100,320	139,188
Amount Uninsured	53	340	393

The bank balance as of June 30, 2003, was approximately \$139.5 million of which \$139.1 million was subject to coverage by the Federal Deposit Insurance Corporation (FDIC), or collateralized by securities held by the State or its agents in the State's name, leaving \$393,000 uninsured and uncollateralized. The primary government carrying amount included fiduciary deposits in the amount of \$21,199,000.

**Investments**

The State Treasurer's Office has statutory responsibility for the daily cash management activities of the State's agencies, departments, boards and commissions. The State Treasurer's Office is permitted by West Virginia Code §12-1-12A to invest up to \$125 million in overnight repurchase agreements, and holds cash equivalents of \$41 million at June 30, 2003.

The State Treasurer's Office determines which funds to transfer to the Investment Management Board (IMB) for investment in accordance with West Virginia Code, policies set by the IMB, and by provisions of bond indentures and trust agreements, when applicable. The IMB provides fiscal administration, investment and management of the State's pension assets except for the State's defined contribution plan for certain teachers and education personnel who self-direct investments in privately managed funds. In addition, local political subdivisions within the State are permitted to invest in certain pools maintained by the IMB.

The IMB maintains the Consolidated Fund investment fund. The Consolidated Fund consists of five investment pools and participant-directed accounts, in which the state and local governmental agencies invest. The Consolidated Fund also includes amounts invested in various pools by pension funds of the State, as well as certain operating funds of the Workers' Compensation Fund and other funds. These pools have been structured as multi-participant variable net asset funds to reduce risk and offer investment liquidity diversification to the Fund participants. Funds not required to meet immediate disbursement needs are invested for longer periods. A more detailed discussion of the IMB's Consolidated Fund pool can be found in the IMB's annual report. A copy of the IMB's annual report can be obtained from the following address: 500 Virginia Street East, Suite 200, Charleston, WV 25301 or <http://www.wvimb.org>.

In addition to amounts invested with the IMB, certain governmental funds and discretely presented component units are permitted to invest bond proceeds with a third-party trustee named in the bond indenture. The governmental funds include the Education, Arts, Sciences, and Tourism Fund; School Building Authority; West Virginia Infrastructure and Jobs Development Council, the Department of Health and Human Resources, the Department of Administration, the Department of Environmental Protection, and the Smart 529 College Savings Plan. The following discretely presented component units have reported investments held with a third-party trustee: Regional Jail Authority; Educational Broadcasting Authority; Jobs Investment Trust; Housing Development Fund; Parkways, Economic Development and Tourism Authority; WV State Rail Authority; Water Development Authority; Solid Waste Management Board; and Higher Education. Assets of the Teachers' Defined Contribution Retirement System of the Consolidated Public Retirement Board are held by an outside third party.

Permissible investments for all agencies include those guaranteed by the United States of America, its agencies and instrumentalities (U.S. Government obligations); equities; corporate debt obligations, including commercial paper, which meet certain ratings; certain money market funds; investment agreements with certain financial institutions; repurchase agreements; state and local government securities (SLGS) and other investments. Other investments consist primarily of single family mortgage loans and collateralized mortgage obligations. SLGS are direct obligations of the U.S. Government, issued to state and local government entities to provide those governments with required cash flows at yields which do not exceed IRS arbitrage limits.

The State's investment strategy includes the use of derivatives as a tool in managing market risk and providing an opportunity for enhanced return. The IMB invests in derivative financial investments as authorized by its Board of Trustees. As of June 30, 2003, IMB had five types of derivative financial investments: Future Contracts, Option Contracts, Foreign Exchange Forward Contracts, Credit Default SWAP Agreements, and Asset-Backed Securities. Additionally, the IMB is indirectly exposed to derivative risk through participation in mutual funds or other investment vehicles that use derivatives. Detailed derivative disclosures are not available for indirect derivative participation.

**Future Contracts** A futures contract is an agreement between a buyer or a seller and the clearinghouse of a futures exchange in which the parties agree to buy or sell a commodity, financial instrument or index at a specified future date and price. The IMB invests in financial futures contracts in the Fixed Income Pool and the Russell 2000 index futures in the Non-Large Cap Domestic Equity Pool. Upon entering into a financial futures contract, the IMB is required to pledge to the broker an amount of cash, U.S. Government securities, or other assets, equal to a certain percentage of the contract amount (initial margin deposit). Cash (variation margin) is received from or paid to the broker each day for the daily fluctuations of the underlying securities or index. The market risk associated with holding interest rate and stock index futures results from changes in the market value of the contractual positions due to changes in the value of the underlying instruments or indices. IMB limits its exposure to these risks by establishing and monitoring limits on the type and total value of future contracts that may be held. Credit risk arises from the potential inability of counterparties to meet the terms of the contracts. IMB requires its managers to only utilize future contracts that are traded on major exchanges or are executed with major dealers. The net change in the futures contract value is settled daily in cash with the exchange on which they were traded. Realized net gains or losses resulting from the settlements are included in the Statement of Changes in Net Assets. As of June 30, 2003, the future contracts had the following open positions (expressed in thousands):

	<u>Value Upon</u> <u>Entering Contract</u>	<u>Value at</u> <u>June 30, 2003</u>	<u>Net Gain</u> <u>or (Loss)</u>
Long-Equity Futures	\$ 12,893	\$ 12,872	\$ (21)
Long-Fixed Income Futures	124,713	122,330	(2,383)
Short-Fixed Income Futures	(133,910)	(132,939)	971

**Option Contracts** IMB may purchase or write equity, bond, currency, or index option contracts that have recognized liquidity and are actively traded on major exchanges or are executed with major dealers. These option contracts give the purchaser of the contract the right to buy (call) or sell (put) the security, or settle cash for an index option, underlying the contract at an agreed upon price (strike price) during or at the conclusion of a specified period of time. When writing put options, there is a risk that a loss may be incurred if the



market price of the underlying instruments decreases and the option is exercised. The risk associated with writing call options is the loss of potential profit if the market price of the security increases and the option is exercised. Purchased put or call options bear the risk of loss of the premium paid if market conditions are not favorable to exercise the option. There may also be risk that the value of the option contract doesn't correlate perfectly with movements of the underlying instrument due to certain market distortions. To limit its exposure to these risks, the IMB has established limits on the value and use of option contracts. The net change in the option contract value is settled daily in cash with the exchange on which they were traded. Realized net gains or losses resulting from the settlements are included in the Statement of Changes in Net Assets. As of June 30, 2003, there were no open option contracts.

**Foreign Exchange Forward Contracts** A foreign exchange forward contract is an agreement between two parties to exchange different currencies at a specified exchange rate at an agreed upon future date. The IMB's International Equity Pools' investment managers enter into such contracts to manage exposure of foreign portfolio holdings to changes in foreign currency exchange rates. Risk associated with such contracts include movement in the value of the foreign currency related to the U.S. dollar and the ability of the counterparty to perform. These contracts have relatively short durations and are valued at the prevailing market exchange rates at month-end. At June 30, 2003, the IMB was party to outstanding foreign exchange forward contracts to purchase foreign currencies with contract amounts of \$114.59 million, collectively. Market values of these outstanding contracts were \$114.3 million resulting in net unrealized losses of approximately \$288,000. The unrealized gain or loss is reclassified to realized gain or loss when the contract expires and deposited at fair value.

**Interest Rate Swaps** Interest rate swaps represent an agreement between counterparties to exchange cash flows based on the difference between two interest rates, applied to a notional principal amount for a specified period. Interest rate swaps do not involve the exchange of principal between the parties. Interest is paid or received periodically. These swaps are carried at fair value as either assets or liabilities. Changes in the fair value are recognized in current earnings in the year of change.

**Asset-Backed Securities** The IMB invests in various asset-backed securities, mortgage-backed securities, and structured corporate debt. The securities are reported at fair value. They are included in the totals of government securities and corporate securities, depending on the issuer, in the disclosure of custodial credit risk. The IMB invests in these securities to enhance yields on investments. Changes in market interest rates affect the cash flows of these securities and may result in changes in fair value. The overall return or yield on these securities depends on the changes in the interest and principal payment and market value of the underlying assets.

**Securities Lending** The IMB through its agent, Mellon Bank, loans securities to various brokers on a temporary basis. Each transaction for U.S. securities is secured by initial collateral of at least 102% of the market value of the securities loaned. For international securities, the collateral is at least 105% of the market value of the securities on loan. Cash collateral received is invested in the Mellon GSL DBT II Collateral Fund. The IMB receives a portion of the income from the investment of the collateral and also continues to receive interest or dividends on the securities loaned. Gains or losses in the fair value of the securities loaned that may occur during the term of the loans are reflected in the various investment pools.

At June 30, 2003, the fair value of securities on loan and collateral held by the pools of the IMB are as follows (expressed in thousands). Of the collateral held, \$850 million was received as cash.

	<u>Fair Value of Securities on Loan</u>	<u>Collateral Held</u>
Non-Large Cap Domestic	\$ 20,256	\$ 21,583
Large Cap Domestic	35,234	36,758
International Equity	57,490	60,449
Fixed Income	356,943	364,901
Cash Liquidity	171,418	174,885
Government Money Market	25,025	25,553
Enhanced Yield	<u>199,181</u>	<u>203,129</u>
IMB Total	<u>\$865,547</u>	<u>\$887,258</u>

In accordance with GASB Statement No. 3, investments are classified as to level of risk by the three categories described below:

Category 1 includes investments that are insured or registered, or for which the securities are held by the State or its agent in the State's name.

Category 2 includes investments that are uninsured and unregistered, or for which the securities are held by the counterparty's trust department or agent in the State's name.

Category 3 includes uninsured and unregistered investments held by the counterparty or the counterparty's trust department or agent but not in the State's name.

Investments at June 30, 2003, by security type and level of risk category as defined by GASB Statement No. 3, are as follows (expressed in thousands):

**Primary Government:**

	Category			Reported Value	Fair Value
Security Type	(1)	(2)	(3)		
Categorized:					
U.S. Government and Agencies Obligations	\$ 842,056	\$ —	\$ —	\$ 842,056	\$ 842,199
Corporate Bonds	899,063	—	—	899,063	899,004
Common and Preferred Stocks	2,248,251	—	—	2,248,251	2,248,251
Commercial Paper	217,079	—	—	217,079	217,072
Repurchase Agreements	55,701	10,223	—	65,924	65,923
Investment Contracts	<u>—</u>	<u>72,747</u>	<u>—</u>	72,747	72,747
Total Investments Categorized by Security Type	<u>\$4,262,150</u>	<u>\$82,970</u>	<u>\$ —</u>	—	—
Uncategorized:					
Institutional Mutual Funds				1,147,725	1,147,725
Money Market Mutual Funds				1,716,695	1,716,695
Security Lending Short-Term Collateral Pool				849,686	849,686
Interest Rate Swaps				(2,758)	(2,758)
Investments in Loans and Mortgages				1,462	1,462
Guaranteed Investment Contract				<u>146,340</u>	<u>146,340</u>
Total Primary Government Investments				8,204,270	8,204,346

**Discretely Presented Component Units:**

Categorized:					
U.S. Government and Agencies Obligations	\$ 240,465	\$11,137	\$ —	251,602	251,608
Corporate Bonds	57,626	—	—	57,626	57,626
Common and Preferred Stocks	1,143	—	—	1,143	1,143
Commercial Paper	41,595	—	—	41,595	41,595
Repurchase Agreements	60,975	16,512	6,765	84,252	84,252
State and Local Government Securities (SLGS)	<u>1,851</u>	—	—	1,851	1,851
Total Investments Categorized by Security Type	<u>\$ 403,655</u>	<u>\$27,649</u>	<u>\$6,765</u>	—	—
Uncategorized:					
Money Market Mutual Funds				170,230	170,230
Other Investments				<u>8,342</u>	<u>8,342</u>
Total Component Unit Investments				<u>616,641</u>	<u>616,647</u>
Total Investments				<u>\$8,820,911</u>	<u>\$8,820,993</u>

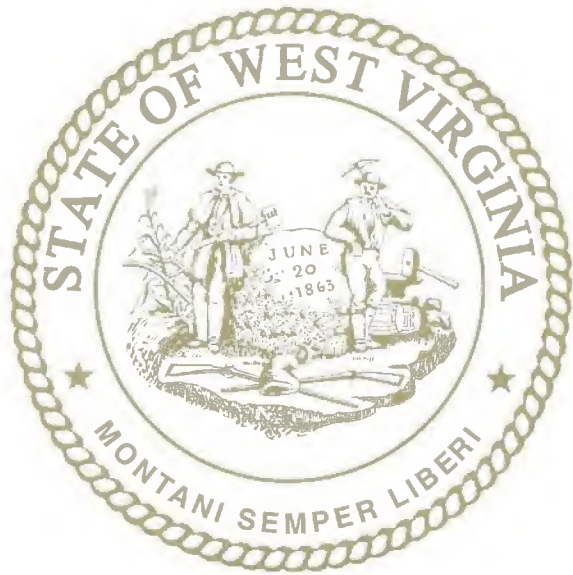
The following schedule reconciles the amount disclosed as deposits and investments included in this footnote to cash and cash equivalents, investments and restricted cash and investments in the Statement of Net Assets at June 30, 2003, (expressed in thousands):

**Deposits:**

Cash and Cash Equivalents as Reported on the Statement of Net Assets	\$ 2,702,568
Cash and Cash Equivalents as Reported on the Statement of Fiduciary Net Assets	249,435
Add:	
Restricted Cash and Cash Equivalents as Reported	149,177
Less:	
Cash Equivalents and Restricted Cash Disclosed as Investments	(2,832,586)
Cash with U.S. Treasury for Unemployment Programs	(234,781)
Other	<u>(2)</u>
Reported Value of Deposits as Disclosed in this Footnote	<u>\$ 33,811</u>

**Investments:**

Investments as Reported on the Statement of Net Assets	\$ 633,061
Investments as Reported on the Statement of Fiduciary Net Assets	4,643,342
Add:	
Restricted Investments as Reported	414,841
Investment Pool Receivables and Payables Reported as	
Cash Equivalents and Investments	295,218
Cash Equivalents and Restricted Cash Disclosed as Investments	2,832,586
Accrued Interest Disclosed as Investments	1,853
Other	<u>10</u>
Reported Value of Investments as Disclosed in this Footnote	<u>\$ 8,820,911</u>



## NOTE 5

### RECEIVABLES

(Expressed in Thousands)

#### Receivables

Receivables at June 30, 2003, consisted of the following:

	Governmental Funds				
	General	Transportation	West Virginia Infrastructure and Jobs Development Council	Other Governmental	Total Governmental Receivables
Taxes	\$269,439	\$ 64,303	\$ —	\$ —	\$333,742
Accounts	73,753	55,506	23	7,875	137,157
Loans	3,482	—	236,545	—	240,027
Accrued Interest	<u>672</u>	<u>—</u>	<u>855</u>	<u>2,005</u>	<u>3,532</u>
Total Receivables	347,346	119,809	237,423	9,880	714,458
Allowance for Doubtful Accounts	<u>(25,263)</u>	<u>—</u>	<u>—</u>	<u>(59)</u>	<u>(25,322)</u>
Receivables, Net	<u>\$322,083</u>	<u>\$119,809</u>	<u>\$237,423</u>	<u>\$9,821</u>	<u>\$689,136</u>
<u>As reported on the Fund</u>					
<u>Financial Statements</u>					
Current Receivables, Net	\$322,083	\$119,809	\$237,423	\$9,821	\$689,136
Noncurrent Receivables, Net	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Receivables, Net	<u>\$322,083</u>	<u>\$119,809</u>	<u>\$237,423</u>	<u>\$9,821</u>	<u>\$689,136</u>
	Fiduciary Funds				
	Pension Trust Funds	Private Purpose Trust Fund	Agency Funds		
Accounts	\$ —	\$ —	\$ —		
Loans	18,752	—	—		
Leases	—	—	—		
Contributions	25,034	807	—		
Accrued Interest	<u>—</u>	<u>—</u>	<u>23</u>		
Total Receivables	43,786	807	23		
Allowance for Doubtful Accounts	<u>—</u>	<u>—</u>	<u>—</u>		
Receivables, Net	<u>\$43,786</u>	<u>\$807</u>	<u>\$23</u>		
<u>As reported on the Fund</u>					
<u>Financial Statements</u>					
Current Receivables, Net	\$43,786	\$807	\$23		
Noncurrent Receivables, Net	<u>—</u>	<u>—</u>	<u>—</u>		
Receivables, Net	<u>\$43,786</u>	<u>\$807</u>	<u>\$23</u>		

## Enterprise Funds

West Virginia Lottery	Workers' Compensation Fund	Employment Securities	Water Pollution Control Revolving Fund	Other Enterprise	Total Enterprise	Internal Service Funds
\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
24,007	156,852	36,103	239	47,023	264,224	2,931
—	—	—	271,330	24,583	295,913	—
—	—	—	—	20	20	2
24,007	156,852	36,103	271,569	71,626	560,157	2,933
—	—	—	—	(1,950)	(1,950)	—
<u>\$24,007</u>	<u>\$156,852</u>	<u>\$36,103</u>	<u>\$271,569</u>	<u>\$69,676</u>	<u>\$558,207</u>	<u>\$2,933</u>
\$24,007	\$156,852	\$36,103	\$ 14,101	\$29,064	\$260,127	\$2,933
—	—	—	257,468	40,612	298,080	—
<u>\$24,007</u>	<u>\$156,852</u>	<u>\$36,103</u>	<u>\$271,569</u>	<u>\$69,676</u>	<u>\$558,207</u>	<u>\$2,933</u>

## Discretely Presented Component Units

Economic Development Authority	Housing Development Fund	Parkways, Economic Development & Tourism Authority	Water Development Authority	Higher Education	Regional Jail	Other Component Units	Total Component Units
\$ —	\$909,695	\$1,705	\$210,219	\$ 58,589	\$11,541	\$ 755	\$1,192,504
139,235	52,114	—	16,976	60,863	—	1,471	270,659
21,869	—	—	—	—	—	—	21,869
642	—	—	—	—	—	—	642
<u>3,142</u>	<u>7,040</u>	<u>—</u>	<u>—</u>	<u>164</u>	<u>—</u>	<u>—</u>	<u>10,346</u>
164,888	968,849	1,705	227,195	119,616	11,541	2,226	1,496,020
<u>(3,500)</u>	<u>(36,413)</u>	<u>—</u>	<u>—</u>	<u>(16,367)</u>	<u>—</u>	<u>—</u>	<u>(56,280)</u>
<u>\$161,388</u>	<u>\$932,436</u>	<u>\$1,705</u>	<u>\$227,195</u>	<u>\$103,249</u>	<u>\$11,541</u>	<u>\$2,226</u>	<u>\$1,439,740</u>
\$ 25,890	\$ 8,796	\$1,705	\$ 13,538	\$ 61,157	\$11,541	\$2,226	\$ 124,853
<u>135,498</u>	<u>923,640</u>	<u>—</u>	<u>213,657</u>	<u>42,092</u>	<u>—</u>	<u>—</u>	<u>1,314,887</u>
<u>\$161,388</u>	<u>\$932,436</u>	<u>\$1,705</u>	<u>\$227,195</u>	<u>\$103,249</u>	<u>\$11,541</u>	<u>\$2,226</u>	<u>\$1,439,740</u>



**Taxes Receivable**

Taxes receivable at June 30, 2003, consisted of the following:

	<u>Governmental Funds</u>		<u>Total</u>
	<u>General</u>	<u>Transportation</u>	
Taxes Receivable:			
Consumer Sales	\$ 74,299	\$ —	\$ 74,299
Personal Income	94,320	—	94,320
Severance	23,169	—	23,169
Business and Occupation	15,753	—	15,753
Automobile Privilege Taxes	—	30,494	30,494
Aviation Fuel Tax	—	123	123
Gasoline Excise	—	33,686	33,686
Insurance	30,779	—	30,779
Corporate Net Income	12,602	—	12,602
Business Franchise	224	—	224
Other	<u>18,293</u>	<u>—</u>	<u>18,293</u>
Total	<u>\$269,439</u>	<u>\$64,303</u>	<u>\$333,742</u>

**Leases Receivable**

The Economic Development Authority has entered into long-term direct financing lease agreements with commercial entities for land, buildings, and equipment. A schedule of future lease amounts due to the Economic Development Authority is as follows:

<u>Year Ended June 30</u>	<u>Direct Financing Leases Amounts Due</u>
2004	\$ 5,393
2005	6,082
2006	2,858
2007	2,793
2008	1,688
2009-2013	9,054
2014-2018	<u>770</u>
Total Minimum Amount Due	28,638
Less Amount Representing Interest	<u>(6,769)</u>
Present Value of Minimum Lease Amount Due	<u>\$21,869</u>



## NOTE 6

### INTERFUND BALANCES

The following table details the interfund balances and activity as of and for the year ended June 30, 2003, (expressed in thousands):

Due To	Due From			
	Governmental			
	General	Transportation	West Virginia Infrastructure and Jobs Development Council	Other Nonmajor
<b>Governmental Funds:</b>				
General	\$ —	\$ 335	\$ —	\$ 94
Transportation	684	—	—	—
Other Nonmajor Governmental	<u>585</u>	<u>178</u>	<u>—</u>	<u>—</u>
Total Governmental Funds	1,269	513	—	94
<b>Proprietary Funds:</b>				
West Virginia Lottery	—	—	—	—
Workers' Compensation Fund	2,224	2,009	—	161
Employment Security	219	51	—	19
Water Pollution	—	—	—	5
Other Nonmajor Proprietary	2,268	1,197	—	24,087
Internal Service Funds	<u>5,227</u>	<u>199</u>	<u>—</u>	<u>446</u>
Total Proprietary Funds	9,938	3,456	—	24,718
<b>Pension Trust Funds</b>	2,010	1,141	—	—
<b>Discretely Presented Component Units</b>				
Major:				
Housing Development Fund	5,000	—	—	—
Parkways, Economic Development and Tourism Authority	—	—	—	—
Water Development Authority	—	—	61	—
Higher Education	9,137	—	—	—
Regional Jail Authority	2,798	—	—	—
Nonmajor:				
State Rail Authority	440	—	—	—
Educational Broadcasting	<u>2,574</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total Discretely Presented Component Units	19,949	—	61	—
<b>Total</b>	<u>\$33,166</u>	<u>\$5,110</u>	<u>\$61</u>	<u>\$24,812</u>

The general fund Due to Other Funds includes \$5,227,000 to the Internal Service Funds which is made up of \$553,000 for building rent, \$3,580,000 for computer services, and \$1,094,000 for vehicle rentals; \$5,000,000 to Housing Development for a loan to the Development Office; and \$9,137,000 to Higher Education for the

Due From								
Proprietary								
West Virginia Lottery	Workers' Compensation Fund	Employment Security	Water Pollution	Other Nonmajor	Internal Service Funds	Fiduciary Funds	Discretely Presented Component Units	Total
\$25,626	\$2,360	\$ —	\$ —	\$ 617	\$ 8	\$ —	\$ 636	\$ 29,676
—	2,388	—	—	—	40	—	482	3,594
<u>1,000</u>	<u>578</u>	<u>—</u>	<u>44</u>	<u>24,001</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>26,386</u>
26,626	5,326	—	44	24,618	48	—	1,118	59,656
—	15	—	—	—	—	—	—	15
15	—	22	—	17	—	—	1,510	5,958
2	—	—	—	94	—	—	641	1,026
—	—	—	—	—	—	—	—	5
1	97	—	—	—	—	—	679	28,329
<u>33</u>	<u>80</u>	<u>—</u>	<u>—</u>	<u>151</u>	<u>100</u>	<u>16</u>	<u>100</u>	<u>6,352</u>
51	192	22	—	262	100	16	2,930	41,685
—	—	—	—	136	—	—	202	3,489
—	—	—	—	—	—	—	—	5,000
—	157	—	—	—	—	—	—	157
—	—	—	28	—	—	—	—	89
9,201	1,044	—	—	—	—	—	—	19,382
<u>—</u>	<u>228</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>3,026</u>
—	11	—	—	—	—	—	—	451
<u>105</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>2,679</u>
9,306	1,440	—	28	—	—	—	—	30,784
<u>\$35,983</u>	<u>\$6,958</u>	<u>\$22</u>	<u>\$72</u>	<u>\$25,016</u>	<u>\$148</u>	<u>\$16</u>	<u>\$4,250</u>	<u>\$135,614</u>

Promise Scholarship Program. The general fund Due from Other Funds includes \$25,626,000 from Lottery of which \$2,002,000 goes to the general fund, \$9,605,000 to Education, \$2,344,000 to Library Commission, \$9,556,000 to Senior Services and \$1,180,000 to Culture and History. The WV Tobacco Settlement Fund gave the Board of Risk and Insurance Management \$24,000,000 (See Note 8).

## NOTE 7

### INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2003, consisted of the following (expressed in thousands):

	Transfers From		
	Governmental		
		West Virginia Infrastructure and Jobs Development Council	Other Nonmajor
Transfers To	General		
<b>Governmental Funds:</b>			
General	\$ —	\$ —	\$ 1,843
Transportation	12,250	—	—
West Virginia Infrastructure and Jobs Development Council	—	—	5,586
Other Nonmajor Governmental	<u>99,736</u>	<u>—</u>	<u>5,311</u>
Total Governmental Funds	111,986	—	12,740
<b>Proprietary Funds:</b>			
Water Pollution	—	4,156	28,138
Workers' Compensation Fund	—	—	—
Other Nonmajor Proprietary	6,041	1,558	—
Internal Service Funds	<u>1,637</u>	<u>—</u>	<u>—</u>
Total Proprietary Funds	7,678	5,714	28,138
Total	<u>\$119,664</u>	<u>\$5,714</u>	<u>\$40,878</u>

The Department of Environmental Protection transferred \$28.1 million to Water Pollution Control Revolving Fund for the treatment of water quality within the state. West Virginia Lottery transferred, as mandated by State Code, \$20 million to School Building Authority's special revenue fund for debt service and \$17.9 million to its debt service fund, \$40 million to West Virginia Infrastructure and Jobs Development Council, and

Transfers From			
Proprietary			
West Virginia Lottery	Employment Security	Other Nonmajor	Total
\$293,347	\$ —	\$7,365	\$302,555
—	—	—	12,250
40,000	—	—	45,586
<u>47,988</u>	<u>3,745</u>	<u>—</u>	<u>156,780</u>
381,335	3,745	7,365	517,171
—	—	—	32,294
3,792	—	1,000	4,792
—	—	—	7,599
<u>2,981</u>	<u>—</u>	<u>—</u>	<u>4,618</u>
6,773	—	1,000	49,303
<u>\$388,108</u>	<u>\$3,745</u>	<u>\$8,365</u>	<u>\$566,474</u>

\$293 million to general fund. The general fund transferred \$22.6 million to School Building Authority's special revenue fund for debt service and \$30 million to their capital projects fund, \$24 million to the West Virginia Infrastructure and Jobs Development Council's debt service fund and \$12.2 million to Transportation's debt service fund. All other transfers are made to finance various programs as authorized by the Legislature.

## NOTE 8

### RESTRICTED ASSETS

Restricted assets are held by special revenue funds, enterprise funds, internal service funds and component units, primarily for the repayment of future long-term obligations and benefits payments. The restricted assets, composed of cash, investments and other similar assets at June 30, 2003, are as follows (expressed in thousands):

	<u>Cash</u>	<u>Investments</u>	<u>Other</u>	<u>Totals</u>
Special Revenue:				
Environmental Programs	\$ 556	\$ —	\$ —	\$ 556
Enterprise:				
West Virginia Lottery	—	4,449	—	4,449
Workers' Compensation Fund	23	210,000	—	210,023
Board of Risk and Insurance Management	8,419	37,584	75,987	121,990
Public Employees' Insurance Agency	<u>1,351</u>	<u>—</u>	<u>—</u>	<u>1,351</u>
	<u>9,793</u>	<u>252,033</u>	<u>75,987</u>	<u>337,813</u>
Internal Service:				
State Building Fund	18,960	—	—	18,960
Travel Management	<u>140</u>	<u>—</u>	<u>—</u>	<u>140</u>
	<u>19,100</u>	<u>—</u>	<u>—</u>	<u>19,100</u>
Discretely Presented Component Units:				
Economic Development Authority	12,224	—	—	12,224
Housing Development Fund	87,785	110,230	894,572	1,092,587
Parkways, Economic Development and Tourism Authority	6,765	34,866	—	41,631
Water Development Authority	5,222	17,712	210,219	233,153
Regional Jail Authority	217	—	—	217
Educational Broadcasting Authority	211	—	—	211
West Virginia State Rail Authority	518	—	—	518
Solid Waste Management Board	715	—	557	1,272
Racing Commission	<u>6,071</u>	<u>—</u>	<u>—</u>	<u>6,071</u>
	<u>119,728</u>	<u>162,808</u>	<u>1,105,348</u>	<u>1,387,884</u>
Total	<u>\$149,177</u>	<u>\$414,841</u>	<u>\$1,181,335</u>	<u>\$1,745,353</u>

### Special Revenue Funds

Environmental Programs has restricted cash held as collateral for loans made to solid waste authorities.

### **Enterprise Funds**

The West Virginia Lottery's assets are restricted to pay the deferred prize claims awarded on an annuity basis. Workers' Compensation restricted assets consist of funds transferred from the Coal-Workers' Pneumoconiosis Fund to the Workers' Compensation Fund (WCF) which, by statute, cannot be used to satisfy WCF obligations until all other assets of WCF have been expended. Board of Risk and Insurance Management's cash and investment assets include funds advanced to a third-party administrator to finance claims, of \$46 million. Of the \$29.6 million in receivables, \$24 million is from the West Virginia Tobacco Settlement Fund for the initial capital and surplus of the physicians' mutual established by House Bill 601. However, House Bill 2122 provides for repayment of the monies by the physicians' mutual to the State. The Public Employees' Insurance Agency's restricted assets are the premium stabilization fund consisting of accumulated dividends and interest on optional life insurance policies to defray future premium increases.

### **Internal Service Funds**

The State Building Fund's restricted assets are held in trust primarily for the costs of asbestos removal. Travel Management Fund's restricted assets are held in escrow for capital outlay.

### **Discretely Presented Component Units**

The Economic Development Authority's assets are restricted to provide assurance that adequate amounts will be available to repay notes secured by the real estate being leased and to guarantee portions of certain loans made for economic development purposes. The Housing Development Fund's cash and investment assets are restricted on behalf of mortgagors and for payments collected on mortgages for which the fund acts as servicer only. Other restricted assets for the Housing Development Fund of \$895 million include federal program receivables and foreclosed properties from defaulted federal program loans. The Parkways, Economic Development and Tourism Authority's assets are restricted to be used for construction, turnpike maintenance and operation, and debt service. The cash and investment assets of the Water Development Authority are restricted as part of applicable bond covenants and the other restricted assets are \$210 million restricted for revenue bonds receivable net of unamortized discount and accrued interest receivable. The Regional Jail and Correctional Facility Authority's assets are restricted because of a safekeeping arrangement with inmates. Educational Broadcasting Authority's cash is restricted for the Star Schools Program, a multi-state distance learning project. The West Virginia State Rail Authority's assets are restricted for debt service payments. The Solid Waste Management Board's assets are restricted because their use is limited by applicable bond covenants or other repayment agreements. The West Virginia Racing Commission's cash is restricted for the unclaimed winning tickets and other trust holdings which are mandated by West Virginia State Code.



## NOTE 9

### CAPITAL ASSETS

#### Governmental Activities

(Expressed in Thousands)

	<u>Beginning Balance As Restated</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ 661,231	\$ 72,404	\$ (700)	\$ 732,935
Construction in Progress	<u>695,018</u>	<u>468,213</u>	<u>(396,005)</u>	<u>767,226</u>
Total Capital Assets, Not Being Depreciated	<u>1,356,249</u>	<u>540,617</u>	<u>(396,705)</u>	<u>1,500,161</u>
Capital Assets, Being Depreciated:				
Buildings and Improvements	596,591	28,227	(4,948)	619,870
Equipment	331,651	20,946	(54,602)	297,995
Infrastructure	7,041,107	356,451	(2)	7,397,556
Library Holdings	15,499	133	—	15,632
Land Improvements	<u>9,586</u>	<u>2,463</u>	<u>(2,279)</u>	<u>9,770</u>
Total Capital Assets, Being Depreciated	<u>7,994,434</u>	<u>408,220</u>	<u>(61,831)</u>	<u>8,340,823</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	(246,130)	(15,238)	4,315	(257,053)
Equipment	(226,984)	(23,921)	33,172	(217,733)
Infrastructure	(2,384,638)	(230,627)	—	(2,615,265)
Library Holdings	(13,532)	(664)	249	(13,947)
Land Improvements	<u>(2,702)</u>	<u>(921)</u>	<u>552</u>	<u>(3,071)</u>
Total Accumulated Depreciation	<u>(2,873,986)</u>	<u>(271,371)</u>	<u>38,288</u>	<u>(3,107,069)</u>
Total Capital Assets Being Depreciated, Net	<u>5,120,448</u>	<u>136,849</u>	<u>(23,543)</u>	<u>5,233,754</u>
Governmental Activities Capital Assets, Net	<u>\$ 6,476,697</u>	<u>\$ 677,466</u>	<u>\$(420,248)</u>	<u>\$ 6,733,915</u>

See Note 2 for Transportation's restatement detail.

Depreciation expense was charged to functions as follows:

Legislative	\$ 31
Judicial	519
Executive	403
Administration	11,302
Commerce	3,110
Environmental Protection	361
Employment Programs	225
Education	499
Health and Human Resources	354
Military Affairs and Public Safety	9,766
Tax and Revenue	149
Transportation	244,486
Miscellaneous Boards and Commissions	<u>166</u>
Total Governmental Activities Depreciation Expense	<u>\$271,371</u>

**Business-type Activities**

(Expressed in Thousands)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ 611	\$ —	\$ —	\$ 611
Total Capital Assets, Not Being Depreciated	611	—	—	611
Capital Assets, Being Depreciated:				
Building and Improvements	2,374	2	—	2,376
Equipment	14,512	3,029	(55)	17,486
Total Capital Assets, Being Depreciated	16,886	3,031	(55)	19,862
Less Accumulated Depreciation for:				
Buildings and Improvements	(698)	(183)	4	(877)
Equipment	(6,631)	(2,228)	163	(8,696)
Total Accumulated Depreciation	(7,329)	(2,411)	167	(9,573)
Total Capital Assets, Being Depreciated, Net	9,557	620	112	10,289
Business-type Activities Capital Assets, Net	<u>\$10,168</u>	<u>\$ 620</u>	<u>\$112</u>	<u>\$10,900</u>

Depreciation expense was charged to functions as follows:

West Virginia Lottery	\$ 1,885
Workers' Compensation Fund	266
Public Employees' Insurance Agency	88
Alcohol Beverage Control Administration	172
Total Business-type Activities Depreciation Expense	<u>\$ 2,411</u>

## Discretely Presented Component Units

(Expressed in Thousands)

	Beginning Balance As Restated	Increases	Decreases	Ending Balance
Discrete Component Unit Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ 121,019	\$ 2,492	\$ (2,066)	\$ 121,445
Construction in Progress	<u>112,830</u>	<u>92,325</u>	<u>(107,543)</u>	<u>97,612</u>
Total Capital Assets, Not Being Depreciated	<u>233,849</u>	<u>94,817</u>	<u>(109,609)</u>	<u>219,057</u>
Capital Assets, Being Depreciated:				
Buildings and Improvements	1,308,976	119,622	(2,316)	1,426,282
Equipment	350,061	39,985	(39,847)	350,199
Infrastructure	944,257	25,003	(68)	969,192
Library Holdings	96,722	6,399	(894)	102,227
Land Improvements	<u>18,302</u>	<u>1,613</u>	<u>—</u>	<u>19,915</u>
Total Capital Assets, Being Depreciated	<u>2,718,318</u>	<u>192,622</u>	<u>(43,125)</u>	<u>2,867,815</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	(393,264)	(30,464)	1,134	(422,594)
Equipment	(225,751)	(39,731)	36,627	(228,855)
Infrastructure	(421,145)	(33,870)	66	(454,949)
Library Holdings	(74,516)	(5,468)	647	(79,337)
Land Improvements	<u>(6,799)</u>	<u>(1,235)</u>	<u>—</u>	<u>(8,034)</u>
Total Accumulated Depreciation	<u>(1,121,475)</u>	<u>(110,768)</u>	<u>38,474</u>	<u>(1,193,769)</u>
Total Capital Assets Being Depreciated, Net	<u>1,596,843</u>	<u>81,854</u>	<u>(4,651)</u>	<u>1,674,046</u>
Discrete Component Unit Activities				
Capital Assets, Net	<u>\$ 1,830,692</u>	<u>\$ 176,671</u>	<u>\$(114,260)</u>	<u>\$ 1,893,103</u>

Depreciation expense was charged to Discrete Component Units as follows:

Economic Development Authority	\$ 2,109
Housing Development Fund	49
Parkways, Economic Development and Tourism Authority	28,265
Water Development Authority	55
Higher Education	72,307
Educational Broadcasting Authority	1,746
Jobs Investment Trust	67
West Virginia State Rail Authority	1,098
Solid Waste Management Board	28
Regional Jail Authority	3,671
Racing Commission	8
Public Defenders Corporation	<u>1,365</u>
Total Discrete Component Unit Depreciation Expense	<u>\$110,768</u>

## NOTE 10

## LONG-TERM OBLIGATIONS

## Primary Government:

Long-term obligations at June 30, 2003, and changes for the fiscal year then ended are as follows (expressed in thousands):

	Balance June 30, 2002 <u>As Adjusted</u>	Additions	Reductions	Other Changes	Balance June 30, 2003	Amount Due Within One Year
<b>Governmental Activities</b>						
General Obligation Bonds:						
Transportation	\$ 539,540	\$ —	\$ (22,040)	\$ —	\$ 517,500	\$23,070
Premium/(Discount)	<u>4,290</u>	<u>—</u>	<u>(834)</u>	<u>—</u>	<u>3,456</u>	<u>—</u>
Total Transportation	543,830	—	(22,874)	—	520,956	23,070
School Building	4,000	—	(2,000)	—	2,000	2,000
WV Infrastructure and Jobs	<u>285,664</u>	<u>—</u>	<u>(3,985)</u>	<u>—</u>	<u>281,679</u>	<u>4,230</u>
	<u>833,494</u>	<u>—</u>	<u>(28,859)</u>	<u>—</u>	<u>804,635</u>	<u>29,300</u>
Revenue Bonds:						
School Building Authority	322,800	32,370	(54,730)	—	300,440	24,490
(Discount)	<u>—</u>	<u>—</u>	<u>(982)</u>	<u>—</u>	<u>(982)</u>	<u>—</u>
	322,800	32,370	(55,712)	—	299,458	24,490
Education	2,296	—	(49)	(9)	2,238	52
WV Infrastructure and Jobs						
Development Council	45,000	—	(135)	—	44,865	315
Education, Arts, Sciences, and Tourism Fund	<u>68,915</u>	<u>—</u>	<u>(6,370)</u>	<u>—</u>	<u>62,545</u>	<u>6,690</u>
	<u>439,011</u>	<u>32,370</u>	<u>(62,266)</u>	<u>(9)</u>	<u>409,106</u>	<u>31,547</u>
Capital Leases (See Note 11)	<u>252,107</u>	<u>65,691</u>	<u>(16,810)</u>	<u>(89)</u>	<u>300,899</u>	<u>16,555</u>
Other Obligations:						
Accrued and Other Liabilities						
(See Note 15)	395,601	35,447	(29,957)	—	401,091	8,894
Compensated Absences	283,245	10,794	(43,612)	—	250,427	64,726
Net Pension Obligation						
(See Note 12)	<u>221,364</u>	<u>32,738</u>	<u>—</u>	<u>—</u>	<u>254,102</u>	<u>—</u>
	<u>900,210</u>	<u>78,979</u>	<u>(73,569)</u>	<u>—</u>	<u>905,620</u>	<u>73,620</u>
Total Governmental Activities						
Long-Term Obligations	<u>\$2,424,822</u>	<u>\$177,040</u>	<u>\$(181,504)</u>	<u>\$( 98)</u>	<u>\$2,420,260</u>	<u>\$151,022</u>

The assets of the general fund, special revenue, and internal service funds are used to liquidate the capital lease obligations and accrued and other liabilities of their respective fund types. Compensated absences liabilities are liquidated by the applicable governmental and internal service funds that account for the salaries and wages of the related employees. The net pension obligations are liquidated by the State's governmental and internal service funds that contribute toward the pension funds based on plans established by the action of the State Legislature.

**General Obligation Bonds** – The State has constitutionally limited its ability to incur debt. The State's general obligation debt must be authorized by constitutional amendment. A proposed amendment must be approved by two-thirds of both the Senate and the House of Delegates before it can be ratified or rejected by the voters. Once the amendment has voter approval, the Legislature must pass specific legislation authorizing the issuance of general obligation debt. General obligation bonds outstanding at June 30, 2003, were as follows (expressed in thousands):

	<b>Final Maturity Date</b>	<b>Interest Rate(s)%</b>	<b>Balance</b>
Transportation Bonds:			
Payable from State Road Fund, Issued Under:			
1973 Amendment	2006	2.75-8.70	\$ 10,815
1996 SAFE Roads Amendment	2025	4.00-5.75	<u>510,141</u>
			520,956
School Building Bonds:			
Payable from General Revenue Fund, Issued Under:			
1972 Amendment	2004	4.00-7.00	2,000
Infrastructure Bonds:			
Payable from dedicated severance tax revenues	2028	5.81-6.93	<u>281,679</u>
Total			<u>\$804,635</u>

Future amounts required to pay principal and interest on general obligation bonds at June 30, 2003, were as follows (expressed in thousands):

<b>Year Ended June 30</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2004	\$ 29,300	\$ 38,812	\$ 68,112
2005	28,650	37,265	65,915
2006	32,862	36,799	69,661
2007	37,097	36,398	73,495
2008	38,508	34,992	73,500
2009-2013	205,822	150,197	356,019
2014-2018	167,775	106,692	274,467
2019-2023	158,061	76,620	234,681
2024-2028	<u>103,104</u>	<u>37,889</u>	<u>140,993</u>
	<u>801,179</u>	<u>555,664</u>	<u>1,356,843</u>
Premium	3,456	—	3,456
Total	<u>\$804,635</u>	<u>\$555,664</u>	<u>\$1,360,299</u>

**Revenue Bonds** – Revenue bonds are issued by various State departments, agencies and authorities which are part of the primary government. Revenue bonds are issued pursuant to specific statutory provisions enacted by the Legislature for the purpose of financing capital construction. Principal and interest payments are made from specifically dedicated fees and other revenues. Revenue bonds do not constitute a general obligation of the State. The following describes the dedicated revenue source of revenue bonds outstanding at June 30, 2003:

School Building Authority	- Certain net profits of the West Virginia Lottery
Department of Education	- Revenues from Cedar Lakes Conference Center
WV Infrastructure and	
Jobs Development Council	- Certain repayment of defined loans
Education, Arts, Sciences,	
and Tourism Fund	- Certain net profits of the West Virginia Lottery

Revenue bonds outstanding at June 30, 2003, were as follows (expressed in thousands):

	<u>Issue Date</u>	<u>Final Maturity Date</u>	<u>Interest Rate(s)%</u>	<u>Balance</u>
School Building Authority	1990-1997	2004-2022	4.30-7.45	\$299,458
Department of Education	1996	2025	5.75-6.00	2,238
WV Infrastructure and				
Jobs Development Council	2001	2039	4.50-5.75	44,865
Education, Arts, Sciences,				
and Tourism Fund	1997	2011	5.00-5.50	<u>62,545</u>
Total				<u>\$409,106</u>

Future amounts required to pay principal and interest on revenue bonds at June 30, 2003, were as follows (expressed in thousands):

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ 31,547	\$ 21,420	\$ 52,967
2005	33,215	19,688	52,903
2006	16,029	18,288	34,317
2007	18,657	17,431	36,088
2008	19,751	16,348	36,099
2009-2013	93,812	65,535	159,347
2014-2018	88,265	44,082	132,347
2019-2023	77,340	18,463	95,803
2024-2028	7,617	7,728	15,345
2029-2033	9,380	5,330	14,710
2034-2038	11,530	2,429	13,959
2039-2040	<u>2,945</u>	<u>148</u>	<u>3,093</u>
	<u>410,088</u>	<u>236,890</u>	<u>646,978</u>
Discount	(982)	—	(982)
Total	<u>\$409,106</u>	<u>\$236,890</u>	<u>\$645,996</u>

Certain revenue bonds have call provisions providing for redemption at the option of the State, beginning ten years following the date of issuance, in whole or in part, in inverse order of maturity, and pay a redemption price not exceeding 103% of par value.

**Summary of Discretely Presented  
Component Unit Debt**  
(Expressed in Thousands)

	<b>Balance June 30, 2002</b>	<b>Debt Issued</b>	<b>Debt Paid</b>	<b>Other Changes</b>	<b>Amount Balance June 30, 2003</b>	<b>Due Within One Year</b>
Revenue Bonds:						
Housing Development Fund	\$ 944,852	\$ 25,000	\$(187,320)	\$ 481	\$ 783,013	\$ 71,370
Parkways, Economic Development and Tourism Authority	118,816	54,800	(60,886)	2,077	114,807	2,961
Water Development Authority	212,153	10,115	(3,645)	406	219,029	10,353
Higher Education	342,069	75,625	(11,740)	—	405,954	12,850
Regional Jail Authority	<u>104,815</u>	<u>—</u>	<u>(3,420)</u>	<u>—</u>	<u>101,395</u>	<u>3,585</u>
Total Discretely Presented Component Unit Revenue Bonds	<u>\$1,722,705</u>	<u>\$165,540</u>	<u>\$(267,011)</u>	<u>\$2,964</u>	<u>\$1,624,198</u>	<u>\$101,119</u>
Capital Leases:						
Economic Development Authority	\$ 12,415	\$ —	\$ (879)	\$ —	\$ 11,536	\$ 800
Housing Development Fund	29,640	29,640	(59,280)	—	—	—
Higher Education	28,886	5,854	(5,425)	—	29,315	5,234
Educational Broadcasting Authority	1,868	—	(1,671)	—	197	100
Jobs Investment Trust	6,525	3,488	—	451	10,464	—
West Virginia State Rail Authority	2,239	—	(300)	(17)	1,922	337
Public Defender Corporation	<u>16</u>	<u>—</u>	<u>(16)</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total Discretely Presented Component Unit Capital Leases	<u>\$ 81,589</u>	<u>\$ 38,982</u>	<u>\$ (67,571)</u>	<u>\$ 434</u>	<u>\$ 53,434</u>	<u>\$ 6,471</u>

**Discretely Presented Component Units**

**Revenue Bonds** – Revenue bonds are issued by various component units pursuant to specific statutory provisions enacted by the Legislature for the purpose of financing capital construction. Principal and interest payments are made from specifically dedicated fees and other revenue sources, such as tuition and registration fees, dedicated court fees, mortgage loan repayments, and certain non-toll revenues. Revenue bonds do not constitute general debt of the State (expressed in thousands).

	<b>Issue Date</b>	<b>Final Maturity Date</b>	<b>Interest Rate(s)%</b>	<b>Balance</b>
Housing Development Fund	1976-2002	2039	2.125 - 6.55	\$ 783,013
Parkways, Economic Development and Tourism Authority	1993-2002	2019	3.5 - 23.00	114,807
Water Development Authority	1993-2002	2040	2.0 - 6.375	219,029
Higher Education	1967-2001	2031	3.0 - 6.26	405,954
Regional Jail Authority	1998	2021	4.31 - 5.35	<u>101,395</u>
Total Revenue Bonds				<u>\$1,624,198</u>

Future amounts required to pay principal and interest on revenue bonds of the discretely presented component units at June 30, 2003, were as follows (expressed in thousands):

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ 102,625	\$ 89,194	\$ 191,819
2005	45,020	85,498	130,518
2006	47,647	83,178	130,825
2007	49,604	80,096	129,700
2008	57,051	71,209	128,260
2009-2013	280,366	315,405	595,771
2014-2018	313,290	258,390	571,680
2019-2023	295,576	182,126	477,702
2024-2028	269,222	112,991	382,213
2029-2033	149,853	62,137	211,990
2034-2038	26,041	22,976	49,017
2039-2043	<u>8,756</u>	<u>544</u>	<u>9,300</u>
	<u>1,645,051</u>	<u>1,363,744</u>	<u>3,008,795</u>
Discount	(36,896)	—	(36,896)
Premiums	<u>16,043</u>	<u>—</u>	<u>16,043</u>
Total	<u>\$1,624,198</u>	<u>\$1,363,744</u>	<u>\$2,987,942</u>

### Debt Contingencies And No-Commitment Debt

As a vehicle to assist the local and other non-State governments in West Virginia, the State may appropriate sufficient amounts to meet any deficiencies that may arise because of failures by such entities to provide for debt service payments for obligations under the supervision and control of the Municipal Bond Commission. For the year ended June 30, 2003, no such amounts were transferred to the Municipal Bond Commission under this agreement.

The Hospital Finance Authority (HFA), the Public Energy Authority (PEA), and the Economic Development Authority (EDA) have issued bonds on behalf of third parties that in no way obligates the State, HFA, PEA, or EDA, for these debt issuances, unless these entities or the State serve in a third-party role. The obligations become an obligation of the third party when issued, because all rights to payments and/or obligations have been irrevocably assigned to a trustee. Payments are made directly to the trustee from dedicated revenues of the third parties, in accordance with the related bond indentures. The amount of such no-commitment debt outstanding at June 30, 2003, is approximately \$546 million, \$111 million, and \$800 million for HFA, PEA, and EDA, respectively.



Included in the \$800 million EDA current value is \$179 million related to the 2002 Series A and B bonds and 2003A bonds issued by EDA specifically for the construction of correctional, juvenile, and public safety facilities. The bonds are limited obligations of the EDA, payable solely out of rental revenue derived under the indenture and the contracts of lease-purchase between the EDA and the State. The bonds shall never constitute an indebtedness of the State or the issuer within the meaning of any constitutional provision or statutory limitation, nor are they a charge against the property, general credit or taxing power, if any, of the state or issuer. The State's obligation to pay rentals is subject to and dependent upon yearly appropriations being made by the State Legislature sufficient for such purpose. If the State Legislature does not make an appropriation to pay the lease rentals or the State provides a 30-day notice of cancellation, the contracts of lease-purchase shall be terminated, and the State is to surrender possession of the related facilities. The State has recorded the leasing arrangements as capital lease obligations, included in the lease amounts disclosed in Note 11.

On December 17, 2002, the Housing Development Fund's (HDF) Board of Directors approved a plan of finance authorizing the sale of up to \$75 million Housing Finance Bonds to provide funds for single-family loans. As of June 30, 2003, the HDF has issued the \$25 million Housing Finance Bonds Series 2003 A under this plan of finance. The HDF expects to issue additional bonds in fiscal year 2004.

The HDF has a \$15 million line of credit with the Federal Home Loan Bank that is available as a warehouse line for the purchase of single-family, multi-family and secondary market loans. This line of credit is secured by investments of the Bond Insurance Fund and is a general obligation of the HDF. At June 30, 2003, no advances had been drawn on this line of credit, and accordingly, no balance is outstanding.

### **Current Year Extinguishment of Debt**

On July 15, 2002, the School Building Authority (SBA) issued \$32,370,000 of Capital Improvement Refunding Revenue Bonds, Series 2002 A, for the express purpose of refunding the outstanding balance of \$31,325,000 on the 1992B Capital Improvement Revenue Bonds. The SBA completed the refunding to reduce its aggregate debt service payments by approximately \$4,424,000 over a 13-year period (life of the refunding bonds) and obtain an economic gain (difference between the present values of the old and new debt service payments) of \$3,101,970.

### **Housing Development Fund**

During the fiscal year ended June 30, 2003, the Housing Development Fund redeemed \$167,770,000 of bonds at a redemption price which approximated their carrying value. The impact of the early redemption on the financial statements was not material and there was no debt reissued.

### Parkways, Economic Development and Tourism Authority

In 2003, the Parkways, Economic Development and Tourism Authority (the Authority) issued \$63,900,000 of Variable Rate Demand Revenue Refunding Bonds for the express purpose of refunding \$61,280,000 of the Authority's Series 1993 Bonds. This refunding resulted in a \$7,896,000 deferred loss arising from the difference between the reacquisition price and the net carrying amount of the refunded debt. Amortization of this deferral, charged annually to interest expense through 2019, approximated \$247,000 in 2003. The authority completed the refunding to reduce its aggregate debt service payment by \$7,270,000 over a 17-year period (life of the refunding bonds) and obtain an economic gain (difference between the present values of the old and new debt service payments) of \$4,851,000.

As a means to lower its borrowing costs, when compared against fixed-rate bonds at the time of issuance in February 2003, the Authority entered into an interest rate swap in connection with its 2003 Variable Rate Demand Revenue Refunding Bonds. The intention of the swap was to effectively change the Authority's variable interest rate on the bonds to a synthetic fixed rate of 4.387%.

The bonds and the related swap agreement mature on May 1, 2019, and the swap's notional amount of \$63,900,000 matches the \$63,900,000 variable rate bonds, Series 2003. Under the swap, the Authority pays the counterparty a fixed payment of 4.387% and receives a variable payment computed as 67% of the London Interbank Offered Rate (LIBOR). Conversely, the bond's variable rate is based on The Bond Market Association Municipal Swap Index (BMA).

Because interest rates have declined since the execution of the swap, the swap had a negative fair value of \$9,683,109 as of June 30, 2003. The swap's negative fair value may be countered by a reduction in total interest payments required under the variable rate bonds, creating a lower synthetic interest rate. Because the Authority's bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase. The fair value was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement of the swap.

As of June 30, 2003, the Authority was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap become positive, the Authority would be exposed to credit risk in the amount of the derivative's fair value. The swap counterparty was rated AA by Fitch Ratings and Standard & Poor's and Aa by Moody's Investor's Service as of June 30, 2003.

The swap exposes the Authority to basis risk should the relationship between LIBOR and BMA converge, changing the synthetic rate on the bonds. The effect of this difference would be indicated by a difference between the intended synthetic rate and the synthetic rate as of June 30, 2003. If a change occurs that results in rates moving to convergence, the expected cost saving may not be realized. As of June 30, 2003, the BMA rate was .98%, whereas 67% of the LIBOR was 1.21%.

The Authority or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. If the swap is terminated, the variable rate bond would no longer carry a synthetic interest rate. Also, if at the time of termination the swap has a negative fair value, the Authority would be liable to the counterparty for a payment equal to the swap's fair value.

Using rates as of June 30, 2003, debt service requirements of the variable rate debt and net swap payments, assuming current interest rates remain the same for their term, were as follows (in thousands). As rates vary, variable rate bond interest payments and net swap payments will vary.

<u>Year Ended June 30</u>	<u>Variable-Rate Bonds</u>		<u>Interest Rate Swap, Net</u>	<u>Total</u>
	<u>Principal</u>	<u>Interest</u>		
2004	\$ 200	\$ 482	\$ 2,474	\$ 3,156
2005	200	576	2,379	3,155
2006	200	574	2,427	3,201
2007	300	573	2,363	3,236
2008	3,900	569	2,335	6,804
2009-2013	23,200	2,270	9,348	34,818
2014-2018	29,200	1,120	3,982	34,302
2019	<u>6,700</u>	<u>61</u>	<u>230</u>	<u>6,991</u>
	<u>\$63,900</u>	<u>\$6,225</u>	<u>\$25,538</u>	<u>\$95,663</u>

### **Prior Defeasances**

In prior years, the State defeased certain revenue bonds by placing the proceeds of new bonds in irrevocable trusts to provide for all future debt service payment on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in these financial statements. At June 30, 2003, the following outstanding bonds are considered defeased (expressed in thousands):

<u>Outstanding Amount</u>	
Primary Government	\$ 1,905
Discretely Presented Component Units	<u>93,935</u>
Total	<u>\$95,840</u>

## **NOTE 12**

### **RETIREMENT SYSTEMS**

#### **Plan Description**

The West Virginia State Legislature has established six defined-benefit plans (the Plans) and a defined contribution plan to provide retirement benefits for eligible employees. The Plans are a group of defined-benefit public employee retirement systems. The Consolidated Public Retirement Board (CPRB) administers the Plans under the direction of its Board of Trustees, which consists of the Governor, State Auditor, State Treasurer, Secretary of the Department of Administration, and ten members appointed by the Governor.

CPRB prepares separately issued financial statements covering the retirement systems, which can be obtained from Consolidated Public Retirement Board, Building 5, Room 1000, State Capitol Complex, Charleston, WV 25305-0720. The Plans' financial statements are prepared using fund accounting principles and the accrual basis of accounting, under which expenses are recorded when liabilities are incurred and revenues are recorded in the accounting period in which they are earned and become measurable. Investments are carried at fair value as determined by a third-party pricing service utilized by the respective investment management companies. Investment transactions are accounted for on a trade-date basis. Unrealized gains and losses are included in investment income. Investment income is determined monthly and distributed to each of the defined benefit plans participating in the investment pools on the last day of the month in the form of reinvested shares.

The net pension obligation for June 30, 2003, amounted to approximately \$254 million, which is an increase of approximately \$33 million from the prior year's obligation.

The Plans are comprised of the following groups of defined-benefit plans which provide substantially all employees of the State, its public education system, and other political subdivisions of the State with retirement and death and disability benefits:

- The Public Employees' Retirement System (PERS) is a multiple-employer, cost-sharing, public employee retirement system. The number of local government employers participating in PERS at June 30, 2003, was 507, including 106 cities and towns, 346 special districts, and 55 counties.
- The Deputy Sheriff Retirement System (DSRS) is a multiple-employer, cost-sharing public employee retirement system which was established for all deputy sheriffs hired on or after July 1, 1998. Current employees were eligible to transfer from PERS. The State makes no employer contributions to DSRS.

- The Teachers' Retirement System (TRS) is a multiple-employer, cost-sharing public employee retirement system. Fifty-five county public school systems, certain personnel of the thirteen State-supported institutions of higher education, West Virginia Department of Education, and boards of higher education participate in the TRS plan. Because the State provides substantially all the funding for TRS, the State follows the GASB Statement No. 27 reporting requirements for sole employer plans.
- The Public Safety Death, Disability, and Retirement Fund (PSDDRF), the State Police Retirement System (SPRS), and the Judges' Retirement System (JRS) are single-employer public employee retirement systems.

### **Current Year Actuarial Changes**

Significant changes in assumptions included in the July 1, 2002, actuarial valuations are as follows:

The Public Employees' Retirement System and the Teachers' Retirement System valuation interest assumption was changed from 8.0% to 7.5%.

### **Funding Policy**

Funding policies for all Plans have been established and changed from time to time by action of the State Legislature. Actuarial valuations are performed to assist the Legislature in determining appropriate contribution rates. As a condition of participation in the Plans, employers and/or employees are required to contribute certain percentages of salaries and wages as authorized by statute and specified by CPRB. The following schedule summarizes each defined benefit plan's required contribution rates at June 30, 2003:

**Statutory Contribution Rates as a Percent of Covered Payroll**

<u>System</u>	<u>Member</u>	<u>Employer</u>
PERS	4.5%	9.5% (10.5% effective July 1, 2003)
TRS	6.0%	15.0% State 15.0% Counties 15.0% Other Employers
PSDDRF	9.0%	15.0%
SPRS	12.0%	12.0%
JRS	9.0%	Appropriated by the Legislature

The State Supreme Court has required the State to fund the Teachers' Retirement System in an actuarially sound manner to eliminate the unfunded liability over a forty-year period beginning on July 1, 1994, and to meet the cash flow requirements of the TRS in fulfilling its future anticipated obligations to its members. The State Supreme Court has

for each employee (and interest allocated to the employee's account) become partially vested after six years and fully vested after twelve years of completed service. Employer contributions and earnings thereon forfeited by employees who leave employment prior to becoming vested are available, in the event the employee does not return to active participant status within five years, to reduce the employer's current-period contribution requirement. Any such forfeitures arising from contributions plus earnings thereon, will be used to reduce future employee contributions.

The TDCRS financial statements are prepared using the accrual basis of accounting. The TDCRS provides members with their choice of several investment options which include government security mutual funds, common stock mutual funds, guaranteed insurance contract mutual funds and individually allocated annuities, through private investment companies.

For the year ended June 30, 2003, the approximate payroll of State employees covered by TDCRS was \$537 million and total covered payroll for both the TDCRS and TRS was approximately \$1.38 billion. Both the employees and employers made the required contributions amounting to \$22.4 million and \$37 million, respectively, or 41.7% and 6.88% of covered payroll.

#### Teachers' Insurance and Annuity Association

The Teachers' Insurance and Annuity Association and/or College Retirement Equities Fund (TIAA-CREF), a privately administered multi-employer defined-contribution retirement plan, provides individual retirement fund contracts for each eligible participating employee. Eligible employees consist mainly of state college/university faculty and staff. For the year ended June 30, 2003, contributions were approximately \$25 million from the covered employees and approximately \$25 million from the thirteen participating institutions from the State of West Virginia.

Benefits to retired employees are generally based on the value of the individual contracts and the estimated life expectancy of the employee at retirement and are fully vested from the date of employment. The total annual required contribution and the amount paid is 6% of the employee's annual salary and is established by the Board of Trustees of the University System of West Virginia and the Board of Directors of the State College System. The State has no further liability once annual contributions are made.

## NOTE 13

### OTHER POSTEMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 12, the State provides certain health care insurance benefits, in accordance with State statutes, for retired employees. Substantially all employees hired prior to July 1, 2001, may become eligible for these benefits if they reach normal retirement age while working for the State. The State provides health care credits against monthly health insurance premiums of certain retirees based on various factors, including unused sick leave (see Note 1, "Compensated Absences") at the time of retirement. It is the State's practice to record a liability for expected conversion of sick leave to health care premiums in accordance with GASB Statement No. 16, "Accounting for Compensated Absences."

According to West Virginia State Code, employees hired prior to June 30, 1988, can receive health care credit against 100% of their health care coverage. Employees hired between June 30, 1988, and July 1, 2001, can receive health care credits against 50% of their health care cost. Employees hired July 1, 2001, or later, may not convert sick leave into a health care benefit.

An actuarial study on the conversion of sick leave was conducted as of June 30, 2003. The study reflected changes in assumptions from the prior year methodology regarding the rate of increase in health care premiums down from 13% to 9%, utilization of detailed information on public employee participants, and a decline in the discount rate used to calculate the net present value of the cash flows generated from the retiree conversions, down from 7% to 6.33%. Management believes the actuarial analysis and changes in assumptions resulted in a more accurate projection of the sick leave conversion liability for the Primary Government at June 30, 2003 of \$93 million. The change in the estimate of the liability approximated a \$33 million decrease. The obligation associated with retiree health care benefits is financed on a pay-as-you-go basis. Expenditures recognized for the fiscal year ended June 30, 2003, related to retiree premium sick leave conversion, were approximately \$6 million for approximately 2,200 eligible retirees.

In addition to the pension benefits allowing certain retirees to convert sick leave to health care premiums, State statutes provide that employees who retire may continue participation in the State's health insurance plan subject to certain length of service and participation requirements. Such employees are eligible to participate in the public employees' insurance program by making the premium contribution specified by the PEIA Finance Board. Approximately 29,000 retirees meet those eligibility requirements at June 30, 2003. The retirees currently pay approximately 31% of validated healthcare claims for retirees and their dependents. The balance of the cost is funded by the State through a retiree subsidy, which is included in the make-up of the premium charged for the coverage of each active employee. These postretirement benefits are accounted for and funded on a pay-as-you-go basis. Accordingly, the liability related to providing such benefits is not accrued for in the accompanying financial statements. During the year ended June 30, 2003, expenditures/expenses for such benefits approximated \$79 million net of participant contributions.

## **NOTE 14**

### **RISK MANAGEMENT**

The State is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; employee health and life coverage; and natural disasters. The State of West Virginia operates three significant insurance enterprise funds: Board of Risk and Insurance Management (BRIM), Public Employees' Insurance Agency (PEIA), and Workers' Compensation Fund (WCF).

#### **Description of the Funds**

##### Board of Risk and Insurance Management

BRIM provides a property and liability insurance program for its member agencies. BRIM has general supervision and control over the insurance of all State property, including that of the institutions of higher education and the discretely presented component units. Types of coverage provided by BRIM have been expanded over time to include medical malpractice, automobile liability and coal mine subsidence reinsurance. At the end of the fiscal year, 1,550 organizations participated in the BRIM risk pool.

Underwriting and rate setting policies are established by BRIM. The cost of all coverage as determined by BRIM shall be paid by the participants. The BRIM risk pool retains a \$1 million per occurrence coverage maximum on all third-party liability claims. In the normal course of business, BRIM seeks to reduce the loss that may arise from catastrophes or other events that cause unfavorable operating results by reinsuring levels of risk in various areas of exposure with other insurance enterprises or reinsurers. Excess coverage under this program is limited to \$200 million per event, subject to limits on certain property. Reinsurance permits recovery of a portion of losses from reinsurers; however, it does not discharge the primary liability of BRIM as direct insurer of the risks insured. BRIM does not report reinsured risks as liabilities unless it is probable that those risks will not be covered by reinsurers. There have been no significant reductions in insurance coverage from the prior year. Additionally, the amount of settlements has not exceeded insurance coverage in the past three years.

In December 2001, the West Virginia Legislature passed House Bill 601 which authorized BRIM to provide medical malpractice and general liability coverage to private health care providers. This bill was created as a result of the medical malpractice insurance crisis created by private sector insurance companies not renewing insurance policies for health care providers on a national level, and in the State. BRIM's coverage is provided to health care providers in the State only if the providers attest that they have been unable to obtain



- Implementation of the employer violator rules that give the Commission the power to:
  - Revoke business licenses of defaulted companies
  - Collect premiums from related companies that share common ownership with defaulted companies

**Organizational Changes in Senate Bill 2013:**

The Workers' Compensation Division of the Bureau of Employment Programs was reconstituted as the West Virginia Workers' Compensation Commission (Commission) as of October 1, 2003. The Commission is a separate agency of the State of West Virginia and no longer a division of the Bureau of Employment Programs. In addition, the Performance Council was replaced with the Board of Managers. The Board of Managers is comprised of eleven voting members and four nonvoting legislative advisory members.

The WCF is continuing to undergo additional changes to improve its internal control structure. These changes include the development of new systems that management believes will provide for improved revenue collection and claims management.

**Unpaid Claims Liabilities**

The three insurance funds establish claims liabilities based on estimates of the ultimate cost of claims (including future claims adjustment expenses) that have been reported but not settled, and of claims that have been incurred but not reported. The length of time for which such costs must be estimated varies depending on the coverage involved. Estimated amounts of salvage and subrogation and reinsurance recoverable on unpaid claims are deducted from the liability for unpaid claims. Because actual claims costs depend on such complex factors as inflation, changes in doctrines of legal liability and damage awards, the process used in computing claims liabilities does not result in an exact amount. As a result, there is at least a reasonable possibility that recorded estimates will change by material amounts in the near term. Claims liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claims frequency and other economic and social factors. Adjustments to claims liabilities are charged or credited to expense in the periods in which they are made.

The new House Bill 601 program for private physicians began at BRIM in December 2001. Therefore, the 2002 schedule presented here represents only seven months of development in this program. Medical malpractice claims have a long payout period and claims may not be known for several years. The program is new and the exposures written have not yet developed sufficient experience to be evaluated based on their own merit. For these reasons, the actual incurred claims and loss adjustment expenses may vary significantly from the estimated amount included in BRIM's financial statements.

Information concerning the changes in those aggregate liabilities for the past two fiscal years is shown in the following table (expressed in thousands):

	<u>BRIM</u>		<u>PEIA</u>		<u>WCF</u>	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002 Revised</u>
Unpaid claims and claims adjustment expense liability, beginning of year	\$161,199	\$136,970	\$ 62,392	\$ 52,371	\$3,720,166	\$3,335,200
Incurred claims and claims adjustment expense:						
Provision for insured events of the current fiscal year	83,065	59,732	393,862	379,582	411,011	428,936
Change in discount rate from 6.5% to 5%	—	—	—	—	450,550	—
Increase (Decrease) in provision for insured events of prior fiscal years	(5,834)	8,998	(4,550)	6,918	132,806	463,049
Amortization of discount	—	—	—	—	221,450	196,919
Total incurred claims and claims adjustment expense	<u>77,231</u>	<u>68,730</u>	<u>389,312</u>	<u>386,500</u>	<u>1,215,817</u>	<u>1,088,904</u>
Payments:						
Claims and claims adjustment expense attributable to insured events of the current fiscal year	11,746	11,077	343,939	327,451	87,069	85,097
Claims and claims adjustment expense attributable to insured events of the prior fiscal year	<u>42,397</u>	<u>33,424</u>	<u>46,810</u>	<u>49,028</u>	<u>636,514</u>	<u>621,141</u>
Total payments	<u>54,143</u>	<u>44,501</u>	<u>390,749</u>	<u>376,479</u>	<u>723,583</u>	<u>706,238</u>
Change in provision for Disabled Workers' Relief Fund receivable	—	—	—	—	(9,100)	2,300
Total unpaid claims and claims adjustment expense liability, end of year	<u>\$184,287</u>	<u>\$161,199</u>	<u>\$ 60,955</u>	<u>\$ 62,392</u>	<u>\$4,203,300</u>	<u>\$3,720,166</u>

Neither BRIM nor PEIA discount their estimated claims liability. At June 30, 2003, the total undiscounted claims liability for WCF approximated \$6.85 billion. Invested assets of WCF are not sufficient at current investment rates to retire the claims liability and WCF has a significant deficit. GASB standards provide that, if discounting is used, the pool should use a rate that is determined by giving consideration to such factors as the pool's expected settlement rate for those liabilities and its expected investment yield rate. WCF management's decision to implement a more conservative investment policy, beginning with the current fiscal year, impacted WCF's expected investment yield. Therefore, WCF has adjusted the discount rate for calculating the unfunded claims liabilities at June 30, 2003. Based on the expected investment yields on WCF's investment portfolio, the estimated liability for unpaid claims and claim adjustment expenses (claims liability) has been discounted using a rate of 5%. If discounting of the WCF claims liability were limited to anticipated investment income, the claims liability would have increased by approximately \$2.5 billion to a claims liability of approximately \$6.7 billion, and the total deficit would have increased to approximately \$5.6 billion at June 30, 2003.

WCF management believes the discounted liability for unpaid claims and claims adjustment expenses is adequate. However, due to the inherent variability of the assumptions used to estimate this liability, actual incurred losses and loss adjustment expenses may vary significantly from the estimated amount included in the WCF's financial statements.

### **Fund Deficits**

Billed premiums and investment earnings have not been sufficient to cover costs of coverage provided by WCF and BRIM. Because of this situation, the funds have the following deficits at June 30, 2003, (expressed in thousands):

<u>Insurance Fund</u>	<u>Fund Deficit</u>
Workers' Compensation Fund	\$3,101,680
Board of Risk and Insurance Management	<u>39,246</u>
Total	<u>\$3,140,926</u>

### **Deficit Funding Plans**

#### Workers' Compensation

Due to a history of recurring losses and a significant accumulated deficit, WCF over the past eight years has implemented numerous initiatives, including significant legislative reform for collection of premiums and awarding of claims, premium rate increases and

numerous administrative and operational improvements. The passage and implementation of Senate Bill 2013 is expected to result in significant improvements in the operations of the WCF. Management is systematically implementing the provisions of Senate Bill 2013. The combination of the initial implementation phases of Senate Bill 2013, Legislative appropriations and a renewed focus on improving processes has resulted in a significant reduction in the net cash outflows subsequent to year end. WCF expects to continue to improve its business processes well into the future so that the WCF will function more efficiently and effectively and reduce the deficit.

WCF management expects improvement in operations that will result in a reduction of the deficit in future periods. However, WCF is doubtful that it can improve operations to the extent necessary to fully fund the deficit. Although WCF believes it has sufficient resources to independently operate for several years, it may become necessary to seek alternative funding sources if the business climate in West Virginia prohibits raising premiums to a level adequate to fund the deficit. In addition, as described in Note 15, the loss of certain litigation regarding the implementation of Senate Bill 2013 would have a material negative impact on the financial condition of WCF.

#### Board of Risk and Insurance Management

BRIM's deficiency was largely caused by adverse claim development in the general liability and medical malpractice lines of business. BRIM's continued existence is dependent on its ability to realize future premium increases and collections, State appropriations at least commensurate with the increase being experienced in claims development, and to attain satisfactory levels of future cash flows from operations. In response to this situation, BRIM has developed a financial stability plan that conforms with statutory requirements and includes the following:

- Beginning in fiscal years 2004 and 2005, the SB3 and State agency premiums, respectively, will be calculated using the nominal value of projected losses. In prior years, the present value of project losses was used in the premium calculation and assumed an interest rate (currently 5%). Historically, BRIM has not consistently earned interest at this assumed percentage.
- BRIM has contracted with an independent auditing firm to perform random audits on exposure data reported by insureds. This should enable BRIM to determine the accuracy of the exposure data being reported, which impacts underwriting and premium revenue.

- BRIM will continue to charge the SB3 line of business a nominal unfunded liability surcharge. Beginning in fiscal year 2004, BRIM began assessing State agencies a similar surcharge.
- Consistent with prior years, BRIM will request annual appropriations from the Legislature to reduce the deficiency of net assets.
- Management is evaluating the loss control process and is implementing changes to increase the impact of loss control efforts specifically in the areas of general liability and medical malpractice. Independent action plans for BRIM's loss leaders are being developed with specific goals and objectives for improving their losses.

BRIM's management believes they will have sufficient liquid resources to meet obligations as they become due through June 30, 2004. However, the accompanying financial statements do not reflect any adjustments that might result from the outcome of this uncertainty should such plan fail to be adopted or not be successful.

#### **Required Supplementary Information**

Each of the three risk pools has issued separate, audited financial reports on its operations. Those reports include the required supplementary information concerning the reconciliation of claims liabilities by type of contract and ten-year claim development information.

Complete financial statements of the individual insurance enterprise funds can be obtained directly from their respective administrative offices.

Board of Risk and Insurance Management  
90 MacCorkle Avenue, S.W.  
Suite 203  
South Charleston, West Virginia 25303

Public Employees' Insurance Agency  
Building 5, Room 1001  
1900 Kanawha Boulevard, East  
Charleston, West Virginia 25305

Workers' Compensation Fund  
Bureau of Employment Programs  
4700 MacCorkle Avenue, S.E.  
Charleston, West Virginia 25304

**NOTE 15****COMMITMENTS AND CONTINGENCIES****Environmental Protection Claims**

The State maintains several environmental protection programs including a bonding program for coal operators for mine reclamation, an underground storage tank insurance fund, an abandoned oil and gas well bonding program, and a Landfill Closure Assistance Program (LCAP). Under such programs, the State charges various fees, premiums, other assessments, and sets bonding amounts that operators are required to maintain to ensure that funds are available in the event that the operator is unable to fulfill its environmental protection responsibilities. The bonding programs for operators of coal mines and oil and gas wells are maintained as primary insurance programs for substantially all such operators. The insurance fund for the operators of the underground storage tanks is available to operators who otherwise cannot obtain or afford such bonding. The LCAP program was established to provide assistance with closure costs to the landfill owners who do not have the financial viability to meet closure regulations.

Based upon the State's estimate of the liability for incurred losses under the programs, the bonding amounts and funding structures established by the State have proven inadequate to fund the actual costs of environmental protection that the State has incurred in acceptance of the related insurance risk. As a result, the State has been required at various times to increase fees and bonding rates, as well as make administrative changes in its permitting regulations governing the industries and businesses benefiting from the State's maintenance of such environmental protection programs.

To date, the revenues generated, including the forfeited bonds, have been less than the State's estimate of its undiscounted claims liability for such programs, including the estimated cost of claims that have been incurred but not settled and claims that are considered probable. Management obtained further information and legal interpretation that has led it to conclude that an obligation of the State to conduct the necessary reclamation efforts required under these programs exists, even if funds are not available for such programs, and that accounting principles generally accepted in the United States require recognition of such obligation in the State's financial statements.

Accordingly, management has estimated the total cost of these reclamation efforts to approximate \$366 million at June 30, 2003. Because it is not practical to ascertain when such costs will be funded, no consideration has been given to discounting the obligation. At June 30, 2003, approximately \$40 million is available to pay current reclamation costs. Because it is not expected that the remaining estimated reclamation costs will be liquidated by expendable available financial resources, a \$327 million obligation is reported as a noncurrent liability in the governmental activities on the statement of net assets. The nature of this liability requires the use of estimates and assumptions by management. Actual results could differ materially from management's estimates.

As part of the noncurrent liability, the State currently records a liability for Class I oil and gas wells which represent an immediate threat to the environment. Class II oil and gas wells, which represent a nonimmediate threat to the environment, are mandated to be plugged if resources become available. The plugging of Class III oil and gas wells may be deferred indefinitely. Due to financial resources not being available in the past, or any foreseen availability in the future, the probability of available resources ever being used to plug Class II or III wells is remote. In previous years, Class II wells were included in the reported long-term liability. The State has also made a distinction between orphaned and abandoned wells, since all wells that are abandoned may not be a liability to the State.

The State also currently accrues for active water treatment sites under the special reclamation liability. The State's estimated liability for these water treatment sites assumes a 15-year treatment period until the sites are properly reclaimed. The actual length of water treatment and the actual ultimate liability could differ significantly from this estimate.

In September 2001, the Legislature increased the tax on clean mined coal from three cents to 14 cents per ton, to be reduced to seven cents per ton after no more than 39 months. However, the tax can only be reduced if the Special Reclamation Fund has sufficient funds to meet the State's reclamation responsibilities. In addition, the bonds required of operators have been increased. The Special Reclamation Fund plans to make expenditures for reclamation, including water treatment systems as funding becomes available. The Legislature further established a Special Reclamation Fund Advisory Council (the Council). The Council's role is to develop a financial plan that ensures long-term stability of the special reclamation program. The Legislature further requires actuarial studies of the fund's fiscal soundness every four years, with the first study to be completed by December 2004.

In addition, the State, through the Solid Waste Management Board (the Board), operated one landfill that was closed in 1993. The Board made an application through the Department of Environmental Protection for closure assistance from the LCAP. The Board's application was accepted by the LCAP and since then the LCAP has paid the landfill closure costs. The Board continues to pay for certain postclosure monitoring costs, estimated to be \$236,160 over the next 28 years, which are recorded as a postclosure care liability of the Board in the financial statements of the State's proprietary discretely presented component units. The remaining liabilities for postclosure assistance under the LCAP are estimated at \$1.3 million. These estimates are subject to change resulting from inflation, deflation, technology, or changes in applicable laws or regulations.

## **Other Contingencies**

In addition to the \$327 million in environmental protection claims, the State has recorded an obligation in the amount of \$74 million for the payment of other contingencies. Such other contingencies include, but are not limited to, claims assessed against the State for property damage and personal injury, alleged torts, alleged breaches of contract, and other alleged violations of state and federal laws and regulations. These claims are based on management's evaluation of the nature of such claims and consideration of historical loss experience for the respective types of action. Certain other claims may be covered by the State's insurance carrier under its general liability or medical malpractice coverage.

In an action brought by the United States of America versus the State, the United States prevailed on its claim that the State owed \$11.9 million to the federal government, attributable to overcharges made to various agencies for the employees' share of retirement contributions made by the U.S. Government on behalf of federally funded State employees. At issue is accrued interest which has been assessed by the U.S. Department of Health and Human Services (DHHS) on the principal amount. The interest assessment was set aside but DHHS has filed a motion for reconsideration. Exposure is hard to quantify at this time. The State intends to vigorously contest the case; however, the potential exposure should the State be unsuccessful is estimated by management to be in the range of \$20 to \$40 million.

Public Employees' Insurance Agency (PEIA) is the defendant in a dispute with its former prescription benefit manager (PBM), which essentially maintains that PEIA owes it approximately \$3 million based upon a shared savings provision in the contract. PEIA is also the plaintiff in a dispute with its former PBM maintaining the PBM did not live up to their contract and owes PEIA damages in an unspecified amount. The ultimate outcome of this matter cannot be determined at the present time. In the opinion of management, after consultation with legal counsel, resolution of this matter is not expected to have a material adverse effect on net assets.

There are several cases against the Board of Public Works, involving tax years 2001 through 2003, which have potential refund liabilities of less than \$1 million dollars. Collectively these cases could cost the State up to approximately \$3 million. 7-Eleven, Inc. has a case against the West Virginia Petroleum Underground Storage Tank Fund which could cost the State between \$15 and \$17 million. These matters are being vigorously defended, but recovery by the claimant is possible.



One of the major relief provisions of the Workers' Compensation (WCF) Senate Bill 2013 required the courts to apply the benefit structure and definitions of the new law to all awards made on or after July 1, 2003. Previous court decisions made before the passage of Senate Bill 2013 indicated that the benefit structure and definitions in place as of the date of injury would apply. As of the date of this report, there are several court cases pending that challenge the date of award provisions of Senate Bill 2013. If WCF ultimately loses these actions and is required to apply the benefit structure and definitions in place as of the date of injury, it will have a material negative impact on the estimated liability for unpaid claims and claim adjustment expenses, and on the financial condition of the WCF.

WCF has an unsecured contingent liability for self-insurers who have not defaulted as of June 30, 2003, approximately \$147 million discounted at 5%. It is not possible to estimate the likelihood of future self-insurer defaults; therefore, there has been no provision for future self-insurer defaults in the estimated liabilities for unpaid claims and claims adjustment expenses.

It is not possible to predict with certainty the ultimate outcome of all lawsuits or claims pending or threatened against the State, including those discussed above, some of which may involve potentially significant amounts. Based on the current status of all legal proceedings for which accruals have not been made in the State's financial statements, it is the opinion of management and the Attorney General that the proceedings will not have a material adverse impact on the State's overall financial position. However, depending on the amount and timing of the resolution, some or all of these matters could materially affect the State's results of operations or cash flows for a particular period.

### **Federal Grants**

The State, including its institutions of higher education, receives significant financial assistance from the U.S. Government in the form of grants and other federal awards. Entitlement to those resources is generally conditioned upon compliance with the terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of the resources for allowable purposes. The State provides for estimates of any material disallowance arising in connection with the operation of these federally funded programs as such amounts become reasonably estimable and probable of settlement with available expendable financial resources. Federal awards are subject to financial and compliance audits under either the federal Single Audit Act or by grantor agencies of the federal government or their designees. Any obligations that may arise from cost disallowance or sanctions as a result of those audits are not expected to be material to the financial statements of the State or its component units.

## Arbitrage Rebates

The Internal Revenue Code of 1986 establishes rules and regulations for arbitrage rebates which are applicable to portions of the primary government and most of the discretely presented component units. Arbitrage rebate liabilities have been recorded in the financial statements under accrued and other liabilities and the respective agencies have reserved sufficient amounts for their future payment.

## Construction and Other Commitments (Expressed in Thousands)

	<u>Amount Committed</u>	<u>Commitment</u>
Governmental Funds:		
Transportation	\$575,892	Construction
School Building Authority	77,490	Acquisition, construction and maintenance grants to county school boards
Enterprise Funds:		
Water Pollution	25,912	Committed for loans
Drinking Water Treatment Fund	10,659	Lending consistent with Safe Drinking Water Act
Discretely Presented Component Units:		
Economic Development Authority	38,400	Committed for loans
Parkway, Economic Development, and Tourism Authority	27,300	Turnpike improvements
Regional Jail Authority	43,000	Construction

West Virginia University has signed an agreement providing for the purchase of steam for a remaining period of 30 years. Under the agreement, West Virginia University has an annual minimum steam purchase requirement, purchased at an operating rate calculated in accordance with the agreement. The total payments for steam purchased under the agreement were approximately \$8.1 million in 2003. Payments in future years will be dependent on actual operating costs and other cost indices in those years.

The West Virginia Providing Real Opportunities for Maximizing In-State Student Excellence (PROMISE) scholarship program provides scholarships to students within the West Virginia secondary education system who meet the scholarship requirements. The basic scholarship requirements include maintaining a 3.0 grade average and enrolling in a college or university in West Virginia. The program will pay for tuition and fees and has \$5.4 million at June 30, 2003, to fund the program obligations.

## **NOTE 16**

### **SUBSEQUENT EVENTS**

On July 1, 2003 and August 1, 2003, the Housing Development Fund (HDF) redeemed various Housing Finance Bonds in advance of the scheduled maturities at a par amount of \$13,210,000 and \$10,805,000, respectively. On September 2, 2003, the HDF expects to redeem another \$27,495,000 par value of its Housing Finance Bonds in advance of scheduled maturities.

In January 2002, the HDF advanced \$5 million to the State that was then advanced from the State to Wheeling-Pittsburgh Steel Corporation to prevent bankruptcy and maintain related jobs in the State. On August 1, 2003, Wheeling-Pittsburgh Steel received a \$250 million restructuring loan from a consortium of lenders with the Royal Bank of Canada serving as the lending consortium's agent. The federal Emergency Steel Guarantee Loan Board will primarily guarantee this loan. In connection with this restructuring loan, Wheeling-Pittsburgh Steel repaid the \$5 million advance to the HDF on August 1, 2003. The HDF has agreed to provide a loan guarantee to the lending consortium in the amount of \$10,465,000. The West Virginia Economic Development Authority is providing a \$2,960,000 guarantee toward the HDF's guarantee commitment.

At the request of the Governor of the State, the HDF is in the process of developing a \$25 to \$28 million Economic Development Program. It is anticipated the start date for the Economic Development Program will be during fiscal 2004. The Board of Directors of the Housing Development Fund (the Board) has agreed to the concept of this program and authorized up to \$28 million for this purpose, the funding of which is to come from various sources including the sale of bonds. On August 26, 2003, the Board approved the issuance of \$12 million in notes to the West Virginia Parkways Authority under the Economic Development Program, the proceeds of which will be used to provide a bridge loan for the development of a major retail and distribution center near Wheeling, West Virginia.

At its July 9, 2003, meeting, the West Virginia Infrastructure and Jobs Development Council authorized a revenue bond issue not to exceed \$45 million in the coming year. The proceeds of the 2003 Series A Bonds will be used to make loans and grants to water and wastewater projects. The primary source of repayment for the revenue bonds is the receipt of repayments of principal and interest on a set of loans, known as defined loans, previously made to projects.

On July 31, 2003, Higher Education entered into an agreement to refund the Series 1992 Bonds with the Higher Education Policy Commission Revenue Refunding Bonds ("College Facilities") 2003 Series A Bonds, which were issued on August 13, 2003. The 2003 Series A Bonds ("College Facilities") have an original principal amount \$22,160,080 with varying interest rates up to 5.0% per annum and a total all-in interest cost of 3.5%, maturing in installments through April 2012.

On August 7, 2003, Higher Education entered into an agreement to refund the Series 1992 Bonds with the Higher Education Policy Commission Revenue Bonds ("University Facilities") 2003 Series A Bonds, which were issued on August 19, 2003. The 2003 Series A Bonds ("University Facilities") have an original principal amount of \$60,380,000 with varying interest rates up to 5.0% per annum and a total all-in interest cost of 3.5%, maturing serially through April 2012.

On July 31, 2003, the West Virginia Jobs Investment Trust (Trust) issued the West Virginia Jobs Investment Trust Board Zero-coupon Promissory Notes (New Millennium Fund), Series 2003C and 2003D, in the combined maturity amount of \$6 million, with an initial principal amount of \$3,128,340. The notes mature on July 31, 2013, with interest accrued at 6.67% for the Series 2003C note and 6.52% for the Series 2003D note. In connection therewith, the Trust obtained irrevocable commitments to purchase from the Trust, upon the Trust's demand, nonincentive tax credits totaling \$6 million.

At its September 4, 2003, meeting, the West Virginia Water Development Board authorized the West Virginia Water Development Authority (Authority) to refund four bond issues in the coming year. The proceeds of the 2003 Series A-I bonds will be used to currently refund the Authority's 1993 Series A bonds, which are currently outstanding in the principal amount of \$28,835,000. The proceeds of the 2003 Series B, 2003 Series C and 2003 Series D bonds will be used to currently refund the Authority's 1993 Series A-II and 1993 Series B-II and to advance refund the Authority's 1994 Series A bonds, which are currently outstanding in the principal amounts of \$61,385,000, \$17,425,000 and \$5,250,000, respectively.

Subsequent to June 30, 2003, the West Virginia Water Pollution Control Revolving Fund had applied for additional funding from the EPA under the Clean Water Act in the amount of \$20,647,044 and the respective matching funds from the State of West Virginia of \$4,129,372.

At its October 2, 2003 meeting, the Consolidated Public Retirement Board's (the Board) Actuarial Assumption Review Committee and the Board's actuary recommended that the Public Employees Retirement System (PERS) employer contribution rate be increased to 10.5%, as allowed by WV Code §5-10-31 commencing with Fiscal Year 2004 to maintain the future soundness of the PERS Plan. The recommendation was based on the West Virginia Investment Management Board reported investment results, the actuarial experience losses on investments no longer being sufficient to meet the requirement of funding the normal cost and interest on the Unfunded Actuarial Liability. A PERS experience study was also completed at this time and both the increase in the PERS employer rate and the experience study changes were passed unanimously by the Board. West Virginia Code of State Regulations 162-5-9 was amended to reflect the Board's action and was retroactively effective May 1, 2003.

The Hospital Finance Authority expects to issue approximately \$10 million in bonds on behalf of the State in February 2004. The bonds will pay for a portion of the cost to acquire, construct, and equip a 120-bed veterans nursing home. The Hospital Finance Authority will lease the building to the Department of Administration for the benefit of the Division of Veterans Affairs.

On January 28, 2004, the Economic Development Authority issued \$249,895,000 of serial and term Excess Lottery Revenue Bonds, Series 2004. The bonds are secured by and payable from a portion of the net profits of the West Virginia Lottery, and mature in intervals through July 2026, with interest rates ranging from 1.2% to 6.07%. The proceeds of the sale will be used to finance a portion of the costs of constructing, equipping, improving or maintaining economic development projects, capital improvement projects, and infrastructure projects which promote economic development in the State.





# **Required Supplementary Information (RSI)**

**Budgetary  
Comparison  
Schedule**

**Notes to RSI**

**Budget-to-GAAP  
Reconciliation**

**Pension  
Information**

**Required Supplementary Information  
Budgetary Comparison Schedule  
For the Fiscal Year Ended June 30, 2003  
(Expressed in Thousands)**

	General Revenue Fund			
	Original Budget	Final Budget	Actual	Variance With Final Budget
Revenues:				
Taxes:				
Personal Income	\$1,089,000	\$1,089,000	\$1,055,523	\$ (33,477)
Consumer Sales	907,000	907,000	894,511	(12,489)
Severance	155,800	155,800	162,314	6,514
Corporate Net Income	75,000	75,000	85,809	10,809
Business and Occupation	173,200	173,200	178,415	5,215
Business Franchise	104,000	104,000	95,370	(8,630)
Gasoline and Motor Fuel	—	—	—	—
Wholesale Motor Fuel	—	—	—	—
Automobile Privilege	—	—	—	—
Other	249,200	249,200	267,480	18,280
Excess Lottery Transfer	120,700	120,700	120,700	—
Intergovernmental	—	—	—	—
Licenses, Permits, and Fees	12,200	12,200	11,481	(719)
Departmental Collections	9,000	9,000	10,270	1,270
Investment Earnings	20,000	20,000	20,338	338
Other	14,900	14,900	14,750	(150)
Industrial Access Road Transfer	—	—	—	—
Total Revenues	<u>2,930,000</u>	<u>2,930,000</u>	<u>2,916,961</u>	<u>(13,039)</u>
Expenditures:				
Legislature	33,778	27,778	22,894	4,884
Judicial	76,752	76,752	67,805	8,947
Executive	41,955	47,537	37,856	9,681
Administration	51,325	51,325	50,543	782
Commerce	59,433	59,495	44,294	15,201
Environmental Protection	9,841	9,841	9,506	335
Employment Programs	—	—	—	—
Education	1,933,585	1,933,583	1,915,499	18,084
Health and Human Resources	474,015	475,015	456,994	18,021
Military Affairs and Public Safety	216,179	216,179	201,709	14,470
Tax and Revenue	22,980	22,979	21,106	1,873
Transportation	8,417	8,417	5,080	3,337
Senior Services	965	966	933	33
Miscellaneous Boards and Commissions	—	—	—	—
Total Expenditures	<u>2,929,225</u>	<u>2,929,867</u>	<u>2,834,219</u>	<u>95,648</u>
Excess (Deficiency) of Revenues Over				
(Under) Expenditures Current Year	775	133	82,742	82,609
Expenditures from Prior Year Appropriations	<u>184,799</u>	<u>184,799</u>	<u>101,589</u>	<u>83,210</u>
Total Excess (Deficiency) of Revenues				
Over (Under) Expenditures	(184,024)	(184,666)	(18,847)	165,819
Budgetary Fund Balance, Beginning of Year, as Adjusted	<u>184,831</u>	<u>184,831</u>	<u>184,831</u>	<u>—</u>
Budgetary Fund Balance, End of Year	<u>\$ 807</u>	<u>\$ 165</u>	<u>\$ 165,984</u>	<u>\$165,819</u>



Federal Revenue				State Road			
Original Budget	Final Budget	Actual	Variance With Final Budget	Original Budget	Final Budget	Actual	Variance With Final Budget
\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	226,960	226,960	220,463	(6,497)
—	—	—	—	72,100	72,100	67,576	(4,524)
—	—	—	—	160,868	172,868	170,478	(2,390)
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
2,529,044	2,785,962	2,336,870	(449,092)	511,204	444,294	396,631	(47,663)
—	—	—	—	79,490	79,490	85,836	6,346
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	9,000	5,650	8,049	2,399
—	—	—	—	—	—	—	—
<u>2,529,044</u>	<u>2,785,962</u>	<u>2,336,870</u>	<u>(449,092)</u>	<u>1,059,622</u>	<u>1,001,362</u>	<u>949,033</u>	<u>(52,329)</u>
922	922	525	397	—	—	—	—
—	—	—	—	—	—	—	—
37,180	46,324	32,470	13,854	—	—	—	—
29,236	29,468	27,947	1,521	—	—	—	—
105,902	105,902	80,418	25,484	—	—	—	—
133,803	133,803	70,492	63,311	—	—	—	—
514	4,770	845	3,925	—	—	—	—
380,497	380,497	303,737	76,760	—	—	—	—
1,848,856	1,977,054	1,734,116	242,938	—	—	—	—
54,496	68,180	50,186	17,994	—	—	—	—
25	25	18	7	—	—	—	—
26,438	26,438	12,650	13,788	1,118,097	1,094,097	962,866	131,231
13,139	13,139	11,603	1,536	—	—	—	—
1,760	1,843	1,778	65	—	—	—	—
<u>2,632,768</u>	<u>2,788,365</u>	<u>2,326,785</u>	<u>461,580</u>	<u>1,118,097</u>	<u>1,094,097</u>	<u>962,866</u>	<u>131,231</u>
(103,724)	(2,403)	10,085	12,488	(58,475)	(92,735)	(13,833)	78,902
—	—	—	—	—	—	—	—
(103,724)	(2,403)	10,085	12,488	(58,475)	(92,735)	(13,833)	78,902
—	—	—	—	—	—	—	—
25,298	25,298	25,298	—	105,992	105,992	105,992	—
<u>\$ (78,426)</u>	<u>\$ 22,895</u>	<u>\$ 35,383</u>	<u>\$ 12,488</u>	<u>\$ 47,517</u>	<u>\$ 13,257</u>	<u>\$ 92,159</u>	<u>\$ 78,902</u>

(Continued)



**Required Supplementary Information  
Budgetary Comparison Schedule  
For the Fiscal Year Ended June 30, 2003  
(Expressed in Thousands)  
(Continued)**

	<b>Special Revenue</b>			
	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Variance With Final Budget</b>
Revenues:				
Taxes:				
Personal Income	\$ —	\$ —	\$ —	\$ —
Consumer Sales	—	—	—	—
Severance	—	—	—	—
Corporate Net Income	—	—	—	—
Business and Occupation	—	—	—	—
Business Franchise	—	—	—	—
Gasoline and Motor Fuel	—	—	—	—
Wholesale Motor Fuel	—	—	—	—
Automobile Privilege	—	—	—	—
Other	—	—	—	—
Excess Lottery Transfer	—	—	—	—
Intergovernmental	—	—	—	—
Licenses, Permits, and Fees	—	—	—	—
Departmental Collections	947,558	1,279,027	824,932	(454,095)
Investment Earnings	—	—	—	—
Other	—	—	—	—
Industrial Access Road Transfer	—	—	—	—
<b>Total Revenues</b>	<b>947,558</b>	<b>1,279,027</b>	<b>824,932</b>	<b>(454,095)</b>
Expenditures:				
Legislature	2,652	7,652	244	7,408
Judicial	—	—	—	—
Executive	20,974	19,066	14,574	4,492
Administration	60,712	70,712	65,500	5,212
Commerce	106,573	116,436	76,779	39,657
Environmental Protection	51,689	52,189	24,785	27,404
Employment Programs	71,377	71,377	48,251	23,126
Education	233,079	211,785	159,091	52,694
Health and Human Resources	328,266	334,620	310,055	24,565
Military Affairs and Public Safety	22,161	23,411	15,909	7,502
Tax and Revenue	141,768	141,793	138,404	3,389
Transportation	6,058	6,558	3,830	2,728
Senior Services	37,271	55,900	53,498	2,402
Miscellaneous Boards and Commissions	19,781	20,154	17,716	2,438
<b>Total Expenditures</b>	<b>1,102,361</b>	<b>1,131,653</b>	<b>928,636</b>	<b>203,017</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures Current Year	(154,803)	147,374	(103,704)	(251,078)
Expenditures from Prior Year Appropriations	205,621	205,621	89,713	115,908
<b>Total Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<b>(360,424)</b>	<b>(58,247)</b>	<b>(193,417)</b>	<b>(135,170)</b>
Budgetary Fund Balance, Beginning of Year, as Adjusted	850,704	850,704	850,704	—
<b>Budgetary Fund Balance, End of Year</b>	<b>\$ 490,280</b>	<b>\$ 792,457</b>	<b>\$ 657,287</b>	<b>\$(135,170)</b>

## **REQUIRED SUPPLEMENTARY INFORMATION**

### **Notes to Required Supplementary Information Budgetary Reporting**

The State's annual budget is prepared on a cash basis, modified only at year-end to allow for a 31-day period for the payment of vendor invoices for goods and services previously encumbered. Appropriations expire or lapse at the end of this period.

#### **Budgetary Process**

Appropriation requests for the upcoming fiscal year are submitted to the Department of Administration (Administration) by September 1. Administration conducts budget hearings and reviews revenue estimates for recommendation and preparation of the proposed budget. The Governor presents the proposed budget to the State Legislature in January. Included in that budget proposal is the Governor's official revenue estimate for the upcoming fiscal year. To maintain a balanced budget, the Legislature can appropriate expenditures only to the level of the Governor's official revenue estimate and prior year fund balance.

The Legislature also holds budget hearings, considers the effect of other proposed legislation, and gathers other information during its 60-day session which occurs January through March of each calendar year. During the last days of the legislative session, the Legislature passes the budget and the Governor approves, vetoes, or allows the budget to become law without signing.

In the event that there is a shortfall of General Revenue Fund collections during the year, the Governor may impose a spending reduction. In 1994, the Legislature created a Revenue Shortfall Reserve Fund (Rainy Day Fund) designed to prevent a spending reduction. By law, the first 50 percent of the General Revenue Fund surplus for a fiscal year is set aside in a reserve or Rainy Day Fund not to exceed five percent of the total appropriations from General Revenue for that year. This fund may be used to offset a shortfall of revenues which would otherwise require the Governor to impose expenditure reductions.

Throughout the year, in the event of a budget surplus, supplemental appropriation requests may be made on a special session basis to the Legislature. Appropriations from General Revenue were increased approximately \$46.8 million for surplus appropriation. Appropriated Special Revenue and Federal Funds were increased by total supplemental appropriations of \$175.7 million. During the budget process, the Legislature may also decide to reappropriate certain unexpended budgetary activities for expenditure in the next year. Accounts reappropriated generally relate to special activities or projects that may require several years to complete.

After the budget is legally enacted, certain appropriations from General Revenue may be altered or transferred within each Cabinet Secretariat. The transfers may not exceed more than five percent of the funds appropriated to any one agency or board, and are altered at the budgetary activity level. Other specific transfers are allowed in all the budgetary funds from the object classes of personal services and unclassified budget object classes to employee benefits or from personal services and employee benefits to other budget object classes and are not limited to Secretariat authority.

The budget laws provide for the ability of the Governor to increase the appropriations of the budgetary Appropriated Special Revenue Funds and the Federal Funds when the Legislature is not in session. Detailed spending plans, identification of new revenue sources, and justifications are required for review and approval.

### **Budgetary Control**

The State Legislature annually appropriates those general government activities determined to be important to controlling the financial operations of the State. The Legislature appropriates expenditures for those defined budgetary activities, often further defined by the object classes of personal services, employee benefits, equipment repairs and alterations, or unclassified.

The State's accounting system controls expenditures for appropriated accounts at the budgetary activity level on a predefined quarterly basis. The State Auditor exercises control over spending at the budgetary activity level on an annual appropriation basis.

Administration further monitors the rate and nature of spending for all budgetary accounts by requiring the organization responsible for the budgeted activities to submit annual spending plans reflecting further details on their expected quarterly spending patterns and the types of expenditures for the budgeted accounts. From these spending plans, Administration monitors and limits expenditures within predefined quarterly allotments. Expenditures during a quarter may not exceed the amount of the approved allotment, unless the Governor approves the expenditure of a larger amount. Any amounts remaining unexpended at the close of a quarter are available for reallocation and expenditure during any succeeding quarter of the same fiscal year.

Administration also utilizes encumbrance accounting to control purchase orders and other commitments. Under the budgetary process, unexpended appropriations and encumbrances expire at the end of the 31-day period following each fiscal year-end. All unpaid invoices and claims after that date must be submitted by the vendor to the State Court of Claims, unless the related activity has been reappropriated by the Legislature.

## **Budgetary Funds**

The State uses four budgetary fund groups to summarize accounts or activities which have been legally appropriated. The budgetary fund groups are described as follows:

General Revenue Fund – consists primarily of the major tax revenues of the State such as Consumer Sales Tax, Personal Income Tax, Business and Occupation Tax, Corporate Net Income Tax, and Severance Tax. The General Revenue Fund supports the operation of certain primary government activities and certain other agencies.

Federal Fund – consists of any financial awards made to any State agency by the U.S. Government, whether a loan, grant, subsidy, augmentation, reimbursement or any other form of such awards, including state funds used for federal matching purposes.

Road Fund – consists of revenues from gasoline and other motor fuel excise and license taxes, motor vehicle registration and license fees and all other revenue derived from motor vehicles or motor fuel. The Road Fund is appropriated by the Legislature and used solely for construction, repair and maintenance of public highways and also for the payment of interest and principal on all road bonds.

Appropriated Special Revenue Fund – consists of individual accounts created for special purposes. These accounts generate revenue derived from established rates or fees. The spending within these accounts is limited to the amount collected or the amount appropriated by the Legislature, whichever is less.

The State has other special revenue accounts which are not appropriated. These accounts are special accounts which derive revenues from special fees or charges, or exist for internal agency purposes such as payroll clearing accounts, cost allocations, etc., but are not subject to specific legislative appropriation. Accordingly, these accounts have not been reported in the State's budgetary comparison schedule.



# **Combining Financial Statements and Schedules**

**Nonmajor Funds  
Governmental  
Proprietary  
Fiduciary**

**Nonmajor  
Component Units**





# *GOVERNMENTAL FUND TYPES - NONMAJOR*

## **Special Revenue:**

Special Revenue Funds are used to account for the receipt and use of specific revenues that are legally restricted to expenditures for specified purposes.

## **Debt Service:**

Debt Service Funds are used to account for the accumulation of resources and payment of general long-term debt principal and interest from governmental resources.

## **Capital Projects:**

Capital Projects Funds are used to account for the acquisition and construction of major capital facilities other than those financed by proprietary funds. These funds consist of the following:

**State Road** This constitutionally established Fund is operated within the Department of Transportation. Certain taxes, fees, and other revenue sources are expended for the construction and maintenance of roads.

**School Building Authority** The Authority's responsibilities include providing State funds for the acquisition and construction of elementary and secondary public school facilities in order to satisfy the educational needs of the State's citizens in an efficient and economical manner. The Authority's programs are designed to provide modern, efficient public school facilities throughout the State by promoting the consolidation of elementary and secondary public schools, enabling the State to more efficiently utilize its educational resources.

**Education, Arts, Sciences, and Tourism Fund** The Fund is established to provide public financial support for constructing, equipping, improving, and maintaining capital improvement projects which promote education, arts, sciences, and tourism in the State.

**Lease Purchase Account** This account is established to ensure that revenues and expenditures for the acquisition of capital assets through lease-purchase agreements are properly recorded.

**Permanent Funds:**

Permanent Funds are used to account for resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support specific government programs, for the benefit of the government or its citizenry.

**The Irreducible School Fund** The Fund, which was constitutionally established, is required to maintain a minimum level of investments. All earnings from these investments are transferred to the General Fund for educational expenditures.

**West Virginia Tobacco Settlement Medical Trust Fund** The Fund, established in the West Virginia State Code 4-11A-2, receives fifty percent of the State's tobacco settlement receipts as a participant in the national master tobacco settlement agreement. The settlement moneys received are placed in investments and may not be expended for any purpose. The earnings received on these investments may be expended upon appropriation of the Legislature for support of the Public Employees' Insurance Agency, expansion of the State's Medicaid program, or funding of the State's owned or operated health facilities.



**Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2003  
(Expressed in Thousands)**

	<u>Capital Projects</u>			
	<u>Special Revenue</u>	<u>Debt Service</u>	<u>State Road</u>	<u>School Building Authority</u>
Assets:				
Cash and Cash Equivalents	\$122,898	\$72,477	\$34,562	\$ 50,373
Investments	23,415	22,044	—	64,989
Receivables, Net	7,136	553	953	—
Due from Other Governments	1,379	—	—	—
Due from Other Funds	1,208	1,000	178	—
Inventories	127	—	—	—
Restricted Assets:				
Cash and Cash Equivalents	<u>556</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total Assets	<u>\$156,719</u>	<u>\$96,074</u>	<u>\$35,693</u>	<u>\$115,362</u>
Liabilities:				
Accounts Payable	\$ 5,230	\$ 2	\$ 4,263	\$ 7,811
Accrued and Other Liabilities	44,000	—	—	3
Due to Other Governments	3,027	—	—	—
Due to Other Funds	<u>812</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total Liabilities	<u>53,069</u>	<u>2</u>	<u>4,263</u>	<u>7,814</u>
Fund Balances:				
Reserved for:				
Inventories	127	—	—	—
Capital Projects	—	—	31,430	107,548
Debt Service	—	96,072	—	—
Program Administration	3,884	—	—	—
Permanent Funds	—	—	—	—
Unreserved	<u>99,639</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total Fund Balances	<u>103,650</u>	<u>96,072</u>	<u>31,430</u>	<u>107,548</u>
Total Liabilities and Fund Balances	<u>\$156,719</u>	<u>\$96,074</u>	<u>\$35,693</u>	<u>\$115,362</u>

Capital Projects		Permanent Funds		
Education, Arts, Sciences, and Tourism Fund	Lease Purchase Account	Irreducible School	Tobacco Settlement Medical Trust Fund	Total
\$151	\$53,843	\$1,805	\$ 370	\$336,479
—	—	—	138,594	249,042
—	45	2	1,132	9,821
—	—	—	—	1,379
—	—	—	24,000	26,386
—	—	—	—	127
—	—	—	—	556
<u>\$151</u>	<u>\$53,888</u>	<u>\$1,807</u>	<u>\$164,096</u>	<u>\$623,790</u>
\$ 50	\$ —	\$ —	\$ —	\$ 17,356
—	—	—	—	44,003
—	—	—	—	3,027
—	—	—	24,000	24,812
50	—	—	24,000	89,198
—	—	—	—	127
101	53,888	—	—	192,967
—	—	—	—	96,072
—	—	—	—	3,884
—	—	1,807	140,096	141,903
—	—	—	—	99,639
<u>101</u>	<u>53,888</u>	<u>1,807</u>	<u>140,096</u>	<u>534,592</u>
<u>\$151</u>	<u>\$53,888</u>	<u>\$1,807</u>	<u>\$164,096</u>	<u>\$623,790</u>

**Combining Statement of Revenues, Expenditures,  
and Changes in Fund Balances  
Nonmajor Governmental Funds  
For the Fiscal Year Ended June 30, 2003  
(Expressed in Thousands)**

	<u>Capital Projects</u>			
	<u>Special Revenue</u>	<u>Debt Service</u>	<u>State Road</u>	<u>School Building Authority</u>
Revenues:				
Taxes:				
Other	\$ 4,000	\$ —	\$ —	\$ —
Intergovernmental	108,360	—	4,456	5,270
Licenses, Permits, and Fees	80,260	—	—	—
Charges for Services	557	—	—	—
Investment Earnings	2,748	2,468	2,554	4,398
Other	<u>2,938</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total Revenues	<u>198,863</u>	<u>2,468</u>	<u>7,010</u>	<u>9,668</u>
Expenditures:				
Legislature	2,552	—	—	—
Executive	68	—	—	—
Environmental Protection	94,176	—	—	—
Employment Programs	38,401	—	—	—
Education	924	—	—	—
Military Affairs and Public Safety	3,407	—	—	—
Tax and Revenue	709	—	—	—
Miscellaneous Boards and Commissions	24,558	—	—	—
Capital Outlay	—	—	59,263	47,355
Debt Service:				
Principal	—	42,136	—	—
Interest	<u>—</u>	<u>47,265</u>	<u>—</u>	<u>—</u>
Total Expenditures	<u>164,795</u>	<u>89,401</u>	<u>59,263</u>	<u>47,355</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>34,068</u>	<u>(86,933)</u>	<u>(52,253)</u>	<u>(37,687)</u>
Other Financing Sources (Uses):				
Face Value of Long-Term Debt Issued	—	32,370	—	—
Premiums (Discounts) on Bonds Issued	—	(1,039)	—	—
Capital Lease Acquisition	—	4,203	—	—
Payments to Refunded Bond Escrow Agent	—	(31,325)	—	—
Transfers In	9,764	95,954	—	51,051
Transfers Out	<u>(29,530)</u>	<u>(10,581)</u>	<u>—</u>	<u>—</u>
Total Other Financing Sources (Uses)	<u>(19,766)</u>	<u>89,582</u>	<u>—</u>	<u>51,051</u>
Net Change in Fund Balances	14,302	2,649	(52,253)	13,364
Fund Balances, Beginning of Year	<u>89,348</u>	<u>93,423</u>	<u>83,683</u>	<u>94,184</u>
Fund Balances, End of Year	<u>\$103,650</u>	<u>\$ 96,072</u>	<u>\$ 31,430</u>	<u>\$107,548</u>

Capital Projects		Permanent Funds		
Education, Arts, Sciences, and Tourism <u>Fund</u>	Lease Purchase <u>Account</u>	Irreducible <u>School</u>	Tobacco Settlement Medical Trust <u>Fund</u>	<u>Total</u>
\$ —	\$ —	\$ —	\$ —	\$ 4,000
—	—	—	—	118,086
—	—	—	—	80,260
—	—	3	—	560
1	552	26	7,904	20,651
<u>—</u>	<u>—</u>	<u>769</u>	<u>32,521</u>	<u>36,228</u>
<u>1</u>	<u>552</u>	<u>798</u>	<u>40,425</u>	<u>259,785</u>
—	—	—	—	2,552
—	—	—	—	68
—	—	—	—	94,176
—	—	—	—	38,401
—	—	—	—	924
—	—	—	—	3,407
—	—	—	—	709
—	—	—	—	24,558
83	23,347	—	—	130,048
—	—	—	—	42,136
<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>47,265</u>
<u>83</u>	<u>23,347</u>	<u>—</u>	<u>—</u>	<u>384,244</u>
<u>(82)</u>	<u>(22,795)</u>	<u>798</u>	<u>40,425</u>	<u>(124,459)</u>
—	—	—	—	32,370
—	—	—	—	(1,039)
—	53,363	—	—	57,566
—	—	—	—	(31,325)
—	4	7	—	156,780
<u>(2)</u>	<u>(314)</u>	<u>(451)</u>	<u>—</u>	<u>(40,878)</u>
<u>(2)</u>	<u>53,053</u>	<u>(444)</u>	<u>—</u>	<u>173,474</u>
(84)	30,258	354	40,425	49,015
<u>185</u>	<u>23,630</u>	<u>1,453</u>	<u>99,671</u>	<u>485,577</u>
<u>\$101</u>	<u>\$ 53,888</u>	<u>\$1,807</u>	<u>\$140,096</u>	<u>\$ 534,592</u>

# *SPECIAL REVENUE FUNDS*

## *Nonmajor Funds*

**Environmental Protection** The Fund consists of various programs intended to maintain and improve the environmental quality of the State and its natural resources. Included in this Fund are programs addressing the following: Underground Storage Tanks, Groundwater, Solid Waste Environmental Response and Enforcement, Special Reclamation, Mines and Minerals, Dam Safety, Hazardous Waste Emergency Response, Oil and Gas Reclamation, Oil and Gas Operating Permit and Processing, as well as other miscellaneous programs.

**School Building Authority** The Authority's responsibilities include providing State funds for the acquisition and construction of elementary and secondary public school facilities in order to satisfy the educational needs of the State's citizens in an efficient and economical manner. The Authority's programs are designed to provide modern, efficient public school facilities throughout the State by promoting the consolidation of elementary and secondary public schools, enabling the State to more efficiently utilize its educational resources.

**Public Service Commission** The Commission is responsible for appraising and balancing the interests of current and future utility service customers, the State's economy, and the utilities subject to its jurisdiction. It is directed to identify, explore and consider the potential benefits and risks associated with emerging and state-of-the-art concepts in utility management, rate design and conservation.

**Crime Victims' Compensation** The intent of the Fund is to provide partial relief to the innocent victims of crime, including claimant's attorneys and witnesses, for the failure of the State to fully provide for the safety of its citizens and the inviolability of their property. To fund this program, individuals convicted of any felony or misdemeanor, excluding non-moving traffic violations, must pay an additional amount over and above ordinary court costs.

**Insurance Commission Examiners** The Fund is responsible for examining the financial condition and business methods of domestic, foreign, and alien insurers to ascertain whether they have complied with all laws and regulations of the State. Additionally, the Fund is authorized to promulgate and adopt such rules and regulations relating to insurance as are deemed necessary to protect and safeguard the interests of policyholders and the public.

**Armory Board** The Board is responsible for providing the facilities for the activities of the State's National Guard.

**Bureau of Employment Programs** The Bureau includes the Employment Service Division (ES) and the administrative activities of the Unemployment Compensation Division (UC). The ES operates local offices throughout the State to serve those seeking and providing employment. The UC provides temporary income as partial compensation to unemployed workers from moneys collected under provisions of the Federal Unemployment Tax Act.

**Wildlife Resources Fund** The Fund is responsible for recognizing the inestimable importance of conserving the wildlife resources of West Virginia. In addition, the fund provides the opportunity for citizens and residents of the State to invest in the future of its wildlife resources. The Fund is financed from the proceeds of the sale of lifetime hunting and fishing licenses, as well as proceeds from gifts, grants, and contributions. The interest and principal of this fund shall be used only for the purpose of supporting wildlife conservation programs of the State.

**Children's Fund** The Fund is for the sole purpose of awarding grants, loans, and loan guaranties for child abuse and neglect prevention activities.

**Combining Balance Sheet**  
**Nonmajor Special Revenue Funds**  
**June 30, 2003**  
**(Expressed in Thousands)**

	<b>Environmental Protection</b>	<b>School Building Authority</b>	<b>Public Service Commission</b>
Assets:			
Cash and Cash Equivalents	\$ 91,582	\$150	\$10,775
Investments	—	—	—
Receivables, Net	6,749	—	—
Due from Other Governments	1,211	—	—
Due from Other Funds	181	—	21
Inventories	—	—	—
Restricted Assets:			
Cash and Cash Equivalents	556	—	—
Total Assets	<u>\$100,279</u>	<u>\$150</u>	<u>\$10,796</u>
Liabilities:			
Accounts Payable	\$ 4,583	\$ 6	\$ (592)
Accrued and Other Liabilities	40,186	—	1,530
Due to Other Governments	—	—	3,027
Due to Other Funds	587	4	72
Total Liabilities	<u>45,356</u>	<u>10</u>	<u>4,037</u>
Fund Balances:			
Reserved for:			
Inventories	—	—	—
Program Administration	—	—	—
Unreserved	<u>54,923</u>	<u>140</u>	<u>6,759</u>
Total Fund Balances	<u>54,923</u>	<u>140</u>	<u>6,759</u>
Total Liabilities and Fund Balances	<u>\$100,279</u>	<u>\$150</u>	<u>\$10,796</u>

<u>Crime Victims' Compensation</u>	<u>Insurance Commission Examiners</u>	<u>Armory Board</u>	<u>Bureau of Employment Programs</u>	<u>Wildlife Resources</u>	<u>Children's Fund</u>	<u>Total</u>
\$6,280	\$5,031	\$2,509	\$ 4,803	\$ 738	\$1,030	\$122,898
—	—	—	—	23,415	—	23,415
3	—	2	186	195	1	7,136
—	—	—	168	—	—	1,379
—	1	—	1,005	—	—	1,208
—	—	—	127	—	—	127
—	—	—	—	—	—	556
<u>\$6,283</u>	<u>\$5,032</u>	<u>\$2,511</u>	<u>\$ 6,289</u>	<u>\$24,348</u>	<u>\$1,031</u>	<u>\$156,719</u>
\$ 2	\$ 82	\$ 70	\$ 1,066	\$ —	\$ 13	\$ 5,230
—	—	—	2,284	—	—	44,000
—	—	—	—	—	—	3,027
—	24	7	118	—	—	812
2	106	77	3,468	—	13	53,069
—	—	—	127	—	—	127
—	—	—	3,884	—	—	3,884
<u>6,281</u>	<u>4,926</u>	<u>2,434</u>	<u>(1,190)</u>	<u>24,348</u>	<u>1,018</u>	<u>99,639</u>
<u>6,281</u>	<u>4,926</u>	<u>2,434</u>	<u>2,821</u>	<u>24,348</u>	<u>1,018</u>	<u>103,650</u>
<u>\$6,283</u>	<u>\$5,032</u>	<u>\$2,511</u>	<u>\$ 6,289</u>	<u>\$24,348</u>	<u>\$1,031</u>	<u>\$156,719</u>



**Combining Statement of Revenues, Expenditures,  
and Changes in Fund Balances  
Nonmajor Special Revenue Funds  
For the Fiscal Year Ended June 30, 2003  
(Expressed in Thousands)**

	<b><u>Environmental Protection</u></b>	<b><u>School Building Authority</u></b>	<b><u>Public Service Commission</u></b>
Revenues:			
Taxes:			
Other	\$ 4,000	\$ —	\$ —
Intergovernmental	70,036	—	2,044
Licenses, Permits, and Fees	50,059	—	24,358
Charges for Services	545	—	21
Investment Earnings and Losses	1,011	—	—
Other	<u>2,857</u>	<u>—</u>	<u>5</u>
Total Revenues	<u>128,508</u>	<u>—</u>	<u>26,428</u>
Expenditures:			
Legislature	—	—	—
Executive	—	—	—
Environmental Protection	94,176	—	—
Employment Programs	—	—	—
Education	—	924	—
Military Affairs and Public Safety	—	—	—
Tax and Revenue	—	—	—
Miscellaneous Boards and Commissions	<u>—</u>	<u>—</u>	<u>24,558</u>
Total Expenditures	<u>94,176</u>	<u>924</u>	<u>24,558</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>34,332</u>	<u>(924)</u>	<u>1,870</u>
Other Financing Sources (Uses):			
Transfers In	1,519	1,000	—
Transfers Out	<u>(28,664)</u>	<u>—</u>	<u>(847)</u>
Total Other Financing Sources (Uses)	<u>(27,145)</u>	<u>1,000</u>	<u>(847)</u>
Net Change in Fund Balances	7,187	76	1,023
Fund Balances, Beginning of Year	<u>47,736</u>	<u>64</u>	<u>5,736</u>
Fund Balances, End of Year	<u>\$ 54,923</u>	<u>\$ 140</u>	<u>\$ 6,759</u>

<u>Crime Victims' Compensation</u>	<u>Insurance Commission Examiners</u>	<u>Armory Board</u>	<u>Bureau of Employment Programs</u>	<u>Wildlife Resources</u>	<u>Children's Fund</u>	<u>Total</u>
\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 4,000
525	—	—	35,755	—	—	108,360
1,763	3,597	—	—	483	—	80,260
—	(2)	(7)	—	—	—	557
324	—	29	—	1,370	14	2,748
3	—	—	—	1	72	2,938
<u>2,615</u>	<u>3,595</u>	<u>22</u>	<u>35,755</u>	<u>1,854</u>	<u>86</u>	<u>198,863</u>
2,552	—	—	—	—	—	2,552
—	—	—	—	—	68	68
—	—	—	—	—	—	94,176
—	—	—	38,401	—	—	38,401
—	—	—	—	—	—	924
—	—	3,407	—	—	—	3,407
—	709	—	—	—	—	709
—	—	—	—	—	—	<u>24,558</u>
<u>2,552</u>	<u>709</u>	<u>3,407</u>	<u>38,401</u>	<u>—</u>	<u>68</u>	<u>164,795</u>
<u>63</u>	<u>2,886</u>	<u>(3,385)</u>	<u>(2,646)</u>	<u>1,854</u>	<u>18</u>	<u>34,068</u>
—	—	3,500	3,745	—	—	9,764
(2)	(3)	(14)	—	—	—	(29,530)
(2)	(3)	3,486	3,745	—	—	(19,766)
61	2,883	101	1,099	1,854	18	14,302
<u>6,220</u>	<u>2,043</u>	<u>2,333</u>	<u>1,722</u>	<u>22,494</u>	<u>1,000</u>	<u>89,348</u>
<u>\$6,281</u>	<u>\$4,926</u>	<u>\$ 2,434</u>	<u>\$ 2,821</u>	<u>\$24,348</u>	<u>\$1,018</u>	<u>\$103,650</u>

# *DEBT SERVICE FUNDS*

## *Nonmajor Funds*

**State Road** This constitutionally established Fund is operated within the Department of Transportation to ensure that certain taxes, fees and other revenue sources are expended for the construction and maintenance of roads.

**School Building Authority** The Authority's responsibilities include providing State funds for the acquisition and construction of elementary and secondary public school facilities in order to satisfy the educational needs of the State's citizens in an efficient and economical manner. The Authority's programs are designed to provide modern, efficient public school facilities throughout the State by promoting the consolidation of elementary and secondary public schools, enabling the State to more efficiently utilize its educational resources.

**West Virginia Infrastructure and Jobs Development Council** The Council coordinates the review and funding of water, wastewater, and economic development projects in the State.

**Education, Arts, Sciences, and Tourism Fund** The Fund is established to provide public financial support for constructing, equipping, improving, and maintaining capital improvement projects which promote education, arts, sciences, and tourism in the State.

**Lease Purchase Account** This account is established to ensure that revenues and expenditures for the acquisition of capital assets through lease-purchase agreements are properly recorded.

**Combining Balance Sheet**  
**Nonmajor Debt Service Funds**  
**June 30, 2003**  
(Expressed in Thousands)

	<b>School Building Authority</b>	<b>West Virginia Infrastructure and Jobs Development Council</b>	<b>Education, Arts, Sciences, and Tourism Fund</b>	<b>Lease Purchase Account</b>	<b>Total</b>
<b>Assets:</b>					
Cash and Cash Equivalents	\$37,221	\$75	\$23,388	\$11,793	\$72,477
Investments	22,044	—	—	—	22,044
Receivables, Net	522	—	6	25	553
Due from Other Funds	—	—	1,000	—	1,000
<b>Total Assets</b>	<b><u>\$59,787</u></b>	<b><u>\$75</u></b>	<b><u>\$24,394</u></b>	<b><u>\$11,818</u></b>	<b><u>\$96,074</u></b>
<b>Liabilities:</b>					
Accounts Payable	\$ —	\$ —	\$ —	\$ 2	\$ 2
<b>Fund Balances:</b>					
Reserved for Debt Service	<u>\$59,787</u>	<u>\$75</u>	<u>\$24,394</u>	<u>\$11,816</u>	<u>\$96,072</u>
<b>Total Liabilities and Fund Balances</b>	<b><u>\$59,787</u></b>	<b><u>\$75</u></b>	<b><u>\$24,394</u></b>	<b><u>\$11,818</u></b>	<b><u>\$96,074</u></b>

**Combining Statement of Revenues, Expenditures,  
and Changes in Fund Balances  
Nonmajor Debt Service Funds  
For the Fiscal Year Ended June 30, 2003  
(Expressed in Thousands)**

	<b>School Building Authority</b>	<b>West Virginia Infrastructure and Jobs Development Council</b>	<b>Education, Arts, Sciences, and Tourism Fund</b>	<b>Lease Purchase Account</b>	<b>Total</b>
Revenues:					
Investment Earnings	\$ 1,825	\$ 143	\$ 271	\$ 229	\$ 2,468
Expenditures:					
Debt Service:					
Principal	23,405	4,120	6,370	8,241	42,136
Interest	<u>17,010</u>	<u>14,504</u>	<u>3,470</u>	<u>12,281</u>	<u>47,265</u>
Total Expenditures	<u>40,415</u>	<u>18,624</u>	<u>9,840</u>	<u>20,522</u>	<u>89,401</u>
Deficiency of Revenues Under Expenditures	<u>(38,590)</u>	<u>(18,481)</u>	<u>(9,569)</u>	<u>(20,293)</u>	<u>(86,933)</u>
Other Financing Sources (Uses):					
Face Value of Long-Term Debt Issued	32,370	—	—	—	32,370
Premiums (Discounts) on Bonds Issued	(1,039)	—	—	—	(1,039)
Capital Lease Acquisitions	—	—	—	4,203	4,203
Payments to Refunded Bond Escrow Agent	(31,325)	—	—	—	(31,325)
Transfers In	40,635	24,000	10,000	21,319	95,954
Transfers Out	<u>(2,078)</u>	<u>(5,586)</u>	<u>—</u>	<u>(2,917)</u>	<u>(10,581)</u>
Total Other Financing Sources	<u>38,563</u>	<u>18,414</u>	<u>10,000</u>	<u>22,605</u>	<u>89,582</u>
Net Change in Fund Balances	(27)	(67)	431	2,312	2,649
Fund Balances, Beginning of Year	<u>59,814</u>	<u>142</u>	<u>23,963</u>	<u>9,504</u>	<u>93,423</u>
Fund Balances, End of Year	<u>\$ 59,787</u>	<u>\$ 75</u>	<u>\$24,394</u>	<u>\$ 11,816</u>	<u>\$ 96,072</u>

# *INTERNAL SERVICE FUNDS FINANCIAL STATEMENTS*

Internal Service Funds account for the operations of those State agencies that provide goods and services to other State agencies and governmental units on a cost-reimbursement basis. The Internal Service Funds consist of the following:

**State Building Fund** The Fund operates and maintains the primary State government office building complex and related facilities. These facilities are leased to the State agencies that occupy the facilities.

**Information Services and Communications** The Fund is responsible for establishing, developing, and improving data-processing functions, for promulgating standards for the utilization of data-processing equipment, and for promoting the effective and efficient operation of the legislative, executive, and judicial branches of State Government. Costs are recovered through service charges to user agencies.

**Travel Management** The Fund, a central motor pool responsible for the storage, maintenance, and repairs of State-owned vehicles and aircraft, is maintained by the Purchasing Division of the Department of Administration. User agencies are billed for leasing such vehicles and for use of aircraft.

**West Virginia Investment Management Board** The Board serves as the Trustee to provide prudent fiscal administration, investment, and management of the Consolidated Pension Fund and the State's operating funds.

**Combining Statement of Fund Net Assets**  
**Internal Service Funds**  
**June 30, 2003**  
(Expressed in Thousands)

	<b>State Building Fund</b>	<b>Information Services and Communications</b>	<b>Travel Management</b>	<b>Investment Management Board</b>	<b>Total</b>
<b>Assets:</b>					
Current Assets:					
Cash and Cash Equivalents	\$ 861	\$1,397	\$ 583	\$3,918	\$ 6,759
Receivables, Net	63	117	—	2,753	2,933
Due from Other Funds	579	4,192	1,481	—	6,252
Due from Component Units	1	53	46	—	100
Inventories	101	310	—	—	411
Other Assets	107	10	2	27	146
Restricted Assets:					
Cash and Cash Equivalents	—	—	140	—	140
<b>Total Current Assets</b>	<b><u>1,712</u></b>	<b><u>6,079</u></b>	<b><u>2,252</u></b>	<b><u>6,698</u></b>	<b><u>16,741</u></b>
Noncurrent Assets:					
Restricted Assets:					
Cash and Cash Equivalents	18,960	—	—	—	18,960
Capital Assets, Net	<u>47,598</u>	<u>396</u>	<u>14,205</u>	<u>96</u>	<u>62,295</u>
<b>Total Noncurrent Assets</b>	<b><u>66,558</u></b>	<b><u>396</u></b>	<b><u>14,205</u></b>	<b><u>96</u></b>	<b><u>81,255</u></b>
<b>Total Assets</b>	<b><u>68,270</u></b>	<b><u>6,475</u></b>	<b><u>16,457</u></b>	<b><u>6,794</u></b>	<b><u>97,996</u></b>
<b>Liabilities:</b>					
Current Liabilities:					
Accounts Payable	231	836	23	3,211	4,301
Interest Payable	—	1	26	—	27
Accrued and Other Liabilities	88	119	11	—	218
Due to Other Funds	134	13	1	—	148
Capital Leases	<u>1,327</u>	<u>33</u>	<u>4,374</u>	<u>—</u>	<u>5,734</u>
<b>Total Current Liabilities</b>	<b><u>1,780</u></b>	<b><u>1,002</u></b>	<b><u>4,435</u></b>	<b><u>3,211</u></b>	<b><u>10,428</u></b>
Noncurrent Liabilities:					
Capital Leases	4,139	—	7,264	—	11,403
Compensated Absences	<u>826</u>	<u>1,751</u>	<u>180</u>	<u>—</u>	<u>2,757</u>
<b>Total Noncurrent Liabilities</b>	<b><u>4,965</u></b>	<b><u>1,751</u></b>	<b><u>7,444</u></b>	<b><u>—</u></b>	<b><u>14,160</u></b>
<b>Total Liabilities</b>	<b><u>6,745</u></b>	<b><u>2,753</u></b>	<b><u>11,879</u></b>	<b><u>3,211</u></b>	<b><u>24,588</u></b>
<b>Net Assets:</b>					
Invested in Capital Assets, Net of Related Debt	42,132	363	2,567	96	45,158
Restricted for Capital Projects	18,973	—	—	—	18,973
Unrestricted	<u>420</u>	<u>3,359</u>	<u>2,011</u>	<u>3,487</u>	<u>9,277</u>
<b>Total Net Assets</b>	<b><u>\$61,525</u></b>	<b><u>\$3,722</u></b>	<b><u>\$ 4,578</u></b>	<b><u>\$3,583</u></b>	<b><u>\$73,408</u></b>

**Combining Statement of Revenues, Expenses,  
and Changes in Fund Net Assets  
Internal Service Funds  
For the Fiscal Year Ended June 30, 2003  
(Expressed in Thousands)**

	<b>State Building Fund</b>	<b>Information Services and Communications</b>	<b>Travel Management</b>	<b>Investment Management Board</b>	<b>Total</b>
Operating Revenues:					
Charges for Services	\$ <u>9,423</u>	\$ <u>20,024</u>	\$ <u>7,857</u>	\$ <u>14,354</u>	\$ <u>51,658</u>
Operating Expenses:					
Cost of Sales and Services	9,063	18,378	3,331	11,920	42,692
General and Administration	525	1,867	375	2,330	5,097
Depreciation and Amortization	<u>2,020</u>	<u>1,165</u>	<u>5,118</u>	<u>35</u>	<u>8,338</u>
Total Operating Expenses	<u>11,608</u>	<u>21,410</u>	<u>8,824</u>	<u>14,285</u>	<u>56,127</u>
Operating Income (Loss)	<u>(2,185)</u>	<u>(1,386)</u>	<u>(967)</u>	<u>69</u>	<u>(4,469)</u>
Nonoperating Revenues (Expenses):					
Gain (Loss) on Sale of Equipment	(8)	—	765	8	765
Investment Earnings	178	—	8	43	229
Interest Expense	(279)	(5)	(531)	—	(815)
Other Nonoperating Revenues	<u>512</u>	<u>—</u>	<u>366</u>	<u>—</u>	<u>878</u>
Total Nonoperating Revenues (Expenses)	<u>403</u>	<u>(5)</u>	<u>608</u>	<u>51</u>	<u>1,057</u>
Income (Loss) Before Contributions and Transfers	(1,782)	(1,391)	(359)	120	(3,412)
Capital Contribution	19	—	—	—	19
Transfers In	<u>4,618</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>4,618</u>
Total Transfers	<u>4,637</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>4,637</u>
Change in Net Assets	2,855	(1,391)	(359)	120	1,225
Net Assets, Beginning of Year	<u>58,670</u>	<u>5,113</u>	<u>4,937</u>	<u>3,463</u>	<u>72,183</u>
Net Assets, End of Year	<u>\$61,525</u>	<u>\$ 3,722</u>	<u>\$4,578</u>	<u>\$ 3,583</u>	<u>\$73,408</u>



**Combining Statement of Cash Flows  
Internal Service Funds  
For the Fiscal Year Ended June 30, 2003  
(Expressed in Thousands)**

	<b>State Building Fund</b>	<b>Information Services and Communications</b>	<b>Travel Management</b>	<b>Investment Management Board</b>	<b>Total</b>
Cash Flows from Operating Activities:					
Receipts from Customers	\$ 9,144	\$ 19,867	\$ 8,032	\$ 13,827	\$ 50,870
Payments to Suppliers	(5,577)	(12,282)	(3,249)	(12,060)	(33,168)
Payments to Employees	(3,950)	(7,807)	(817)	(1,589)	(14,163)
Net Cash Provided by (Used for) Operating Activities	<u>(383)</u>	<u>(222)</u>	<u>3,966</u>	<u>178</u>	<u>3,539</u>
Cash Flows from Noncapital Financing Activities:					
Transfers In	4,618	—	—	—	4,618
Other Nonoperating Revenue	<u>466</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>466</u>
Net Cash Provided by Noncapital Financing Activities	<u>5,084</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>5,084</u>
Cash Flows from Capital and Related Financing Activities:					
Capital Contribution	19	—	—	—	19
Proceeds from Sale of Capital Bonds and Other Debts	905	—	3,284	—	4,189
Repayment of Capital Debt	(1,287)	(95)	(4,670)	—	(6,052)
Interest Paid on Capital Debt	(289)	(6)	(567)	—	(862)
Acquisition and Construction of Capital Assets	(1,698)	(173)	(4,002)	(86)	(5,959)
Proceeds from Sale of Capital Assets	<u>—</u>	<u>—</u>	<u>734</u>	<u>8</u>	<u>742</u>
Net Cash Used for Capital and Related Financing Activities	<u>(2,350)</u>	<u>(274)</u>	<u>(5,221)</u>	<u>(78)</u>	<u>(7,923)</u>
Cash Flows from Investing Activities:					
Purchase of Investments	(578)	—	—	—	(578)
Proceeds from Sale of Investments	50	—	—	—	50
Investment Earnings	<u>178</u>	<u>—</u>	<u>8</u>	<u>45</u>	<u>231</u>
Net Cash Provided by (Used for) Investing Activities	<u>(350)</u>	<u>—</u>	<u>8</u>	<u>45</u>	<u>(297)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	2,001	(496)	(1,247)	145	403
Cash and Cash Equivalents, Beginning of Year, as Adjusted	<u>17,820</u>	<u>1,893</u>	<u>1,970</u>	<u>3,773</u>	<u>25,456</u>
Cash and Cash Equivalents, End of Year	<u>\$19,821</u>	<u>\$ 1,397</u>	<u>\$ 723</u>	<u>\$ 3,918</u>	<u>\$25,859</u>

	State Building Fund	Information Services and Communications	Travel Management	Investment Management Board	Total
Reconciliation of Operating Income to Net Cash Provided by (Used for) Operating Activities:					
Operating Income (Loss)	\$(2,185)	\$(1,386)	\$ (967)	\$ 69	\$(4,469)
Adjustments to Reconcile Operating Income (Loss) to Cash Provided by (Used for) Operating Activities:					
Depreciation and Amortization	2,020	1,165	5,118	35	8,338
Changes in Assets and Liabilities:					
Receivables	(278)	(157)	176	(527)	(786)
Inventories	1	—	—	—	1
Other Assets	41	43	—	20	104
Accounts Payable and Accrued Liabilities	—	147	(321)	581	407
Other Liabilities	<u>18</u>	<u>(34)</u>	<u>(40)</u>	<u>—</u>	<u>(56)</u>
Net Cash Provided by (Used for) Operating Activities	<u>\$ (383)</u>	<u>\$ (222)</u>	<u>\$3,966</u>	<u>\$ 178</u>	<u>\$ 3,539</u>

# *PROPRIETARY FUNDS - NONMAJOR*

**Board of Risk and Insurance Management** The Board, a public entity risk pool, is responsible for the self-insurance of all State buildings, automobiles, and legal and civil actions, as well as insuring various county and local governments and charitable organizations. The Board is funded from the premiums assessed to the organizations it insures.

**Public Employees' Insurance Agency** The Agency, a public entity risk pool, is responsible for providing health and life insurance to current and retired state and county employees. The Agency, empowered to set the premium rates charged to its participants, utilizes a third-party administrator to process claims and make payments to doctors and hospitals on a cost reimbursement basis.

**Drinking Water Treatment Revolving Fund** Low interest loans are made to communities to assist in financing drinking water infrastructure projects including, but not limited to, treatment, distribution, transmission, and storage. The Fund is to remain in perpetuity by recirculating the principal and interest earned from the loans.

**Alcohol Beverage Control Administration** The Administration is responsible for the regulation and control of the manufacture, sale, distribution, transportation, storage, and consumption of alcoholic liquors. The Administration shall establish stores and agencies and shall fix uniform prices for the sale of alcoholic liquors.

**West Virginia Prepaid College Plan** The Plan is responsible for providing individuals and organizations the opportunity to prepay future college tuition and mandatory fees at West Virginia public and private colleges and universities. Prices for contracts are based on weighted average tuition and mandatory fees as determined annually by the Plan's consulting actuaries and its Board. In March 2003, the West Virginia Legislature closed the Prepaid Tuition Plan to new contracts until the Legislature authorizes the plan to reopen. The Prepaid Tuition Plan will continue in existence and no contracts in effect will be affected by the closure. All contract holders will continue to pay any amounts due, including monthly installments, penalties and fees, and the Prepaid Tuition Plan will continue to pay all benefits due.

**Combining Statement of Cash Flows**  
**Nonmajor Proprietary Funds**  
**For the Fiscal Year Ended June 30, 2003**  
**(Expressed in Thousands)**

	<b>Business-type Activities - Enterprise Funds</b>					
	<b>Board of Risk and Insurance Management</b>	<b>Public Employees' Insurance Agency</b>	<b>Drinking Water Treatment Revolving Fund</b>	<b>Alcohol Beverage Control Administration</b>	<b>West Virginia Prepaid College Plan</b>	<b>Total</b>
Cash Flows From Operating Activities:						
Receipts from Customers	\$ 80,876	\$ 435,981	\$ 1,243	\$ 58,249	\$ 8,996	\$ 585,345
Payments to Suppliers	(2,744)	(17,444)	—	(46,473)	(240)	(66,901)
Payments to Employees	(992)	(1,842)	—	(3,586)	(218)	(6,638)
Payments to Beneficiaries	(54,143)	(399,566)	—	—	(1,651)	(455,360)
Payments for Loans Originated	—	—	(3,396)	—	—	(3,396)
Other Operating Cash Receipts (Expenses)	(4,813)	8,816	—	139	57	4,199
Net Cash Provided by (Used for) Operating Activities	18,184	25,945	(2,153)	8,329	6,944	57,249
Cash Flows from Noncapital Financing Activities:						
Transfers In	2,910	—	4,331	200	157	7,598
Transfers Out	—	—	—	(8,365)	—	(8,365)
Net Cash Provided by (Used for) Noncapital Financing Activities	2,910	—	4,331	(8,165)	157	(767)
Cash Flows from Capital and Related Financing Activities:						
Acquisition and Construction of Capital Assets	—	(43)	—	(131)	—	(174)
Net Cash Used for Capital and Related Financing Activities	—	(43)	—	(131)	—	(174)
Cash Flows from Investing Activities:						
Purchase of Investments	(41,482)	—	—	—	(3,960)	(45,442)
Proceeds from Sale of Investments	5,175	—	—	—	100	5,275
Investment Earnings	4,342	1,600	79	—	649	6,670
Net Cash Provided by (Used for) Investing Activities	(31,965)	1,600	79	—	(3,211)	(33,497)
Net Increase (Decrease) in Cash and Cash Equivalents	(10,871)	27,502	2,257	33	3,890	22,811
Cash and Cash Equivalents, Beginning of Year	27,491	92,868	3,879	6,791	156	131,185
Cash and Cash Equivalents, End of Year	\$ 16,620	\$ 120,370	\$ 6,136	\$ 6,824	\$ 4,046	\$ 153,996

(Continued)

**Combining Statement of Cash Flows  
Nonmajor Proprietary Funds  
For the Fiscal Year Ended June 30, 2003  
(Expressed in Thousands)  
(Continued)**

	<b>Business-type Activities - Enterprise Funds</b>					
	<b>Board of Risk and Insurance Management</b>	<b>Public Employees' Insurance Agency</b>	<b>Drinking Water Treatment Revolving Fund</b>	<b>Alcohol Beverage Control Administration</b>	<b>West Virginia Prepaid College Plan</b>	<b>Total</b>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for)						
Operating Activities:						
Operating Income (Loss)	\$ (9,229)	\$32,333	\$ 353	\$8,319	\$(1,119)	\$30,657
Adjustments to Reconcile Operating Income (Loss) to Cash Provided by (Used for) Operating Activities:						
Depreciation and Amortization	—	88	—	172	—	260
Changes in Assets and Liabilities:						
Receivables	(2,103)	(6,409)	(2,506)	(75)	5,534	(5,559)
Inventories	—	—	—	(10)	—	(10)
Other Assets	—	—	—	(132)	—	(132)
Accounts Payable and Accrued Liabilities	—	(261)	—	55	(50)	(256)
Tuition Contracts Benefits and Expenses	—	—	—	—	2,582	2,582
Deferred Revenues	9,653	—	—	—	—	9,653
Escrow Deposits	(4,849)	—	—	—	—	(4,849)
Due to/from Other Funds	—	231	—	—	—	231
Unpaid Claims Liabilities	23,088	—	—	—	—	23,088
Other Liabilities	1,624	(37)	—	—	—	1,587
Compensated Absences	—	—	—	—	(3)	(3)
Net Cash Provided by (Used for)						
Operating Activities	<u>\$18,184</u>	<u>\$25,945</u>	<u>\$(2,153)</u>	<u>\$8,329</u>	<u>\$ 6,944</u>	<u>\$57,249</u>
Schedule of Noncash Capital and						
Financing Activities:						
Disposal of Fixed Assets	\$ —	\$ —	\$ —	\$ (50)	\$ —	\$ (50)
Unrealized Gain on Investments	\$ 665	\$ —	\$ —	\$ —	\$ 2,825	\$ 3,490

# *PENSION TRUST FUNDS*

***Pension Trust and Investment Trust Funds*** These Funds are accounted for in essentially the same manner as proprietary funds and are described below:

**Consolidated Public Retirement Board** The Consolidated Public Retirement Board consists of seven plans. There are six defined benefit plans as follows: The Public Employees' Retirement System (PERS) plan is a multiple-employer defined benefit, cost-sharing public employee retirement system. This plan covers substantially all employees of the State and its component units, as well as employees of participating non-State governmental entities who are not participants of another State or municipal retirement system. The Deputy Sheriff Retirement System (DSRS) plan is a multiple-employer defined benefit, cost-sharing public employee retirement system. This plan covers all deputy sheriffs hired on or after July 1, 1998, as well as eligible transferees from PERS. The Teachers' Retirement System (TRS) plan is a multiple-employer defined benefit, cost-sharing public employee retirement system. This plan covers all full-time employees of the public school systems in the State, as well as certain personnel of the State-supported institutions of higher education, State Department of Education, and Boards of higher education. The Public Safety Death, Disability and Retirement Fund (PSDDRF) plan is a single-employer defined benefit public employee retirement system. This plan covers all West Virginia State Police hired before July 1, 1994. The State Police Retirement System (SPRS) was implemented to cover all State Police employees hired on or after July 1, 1994. The Judges Retirement System (JRS) plan is a single-employer defined benefit public employee retirement system. This plan covers State judges who elect to participate. The Teachers' Defined Contribution Retirement System (TDCRS) plan is a multiple-employer defined contribution retirement system. This plan primarily covers full-time employees of the State's county public school systems.

**Combining Statement of Net Assets  
Pension Trust Funds  
June 30, 2003  
(Expressed in Thousands)**

	<b>Public Employees' Retirement System</b>	<b>Teachers' Retirement System</b>	<b>Public Safety Death, Disability, and Retirement Fund</b>
<b>Assets</b>			
Cash and Cash Equivalents	\$ —	\$ —	\$ 4
Investments:			
Equity in Pooled Investments	2,695,890	1,158,296	97,397
Mutual Funds	—	—	—
Receivables, Net:			
Contributions Receivable	851	14,895	2,010
Participant Loans Receivable	—	18,514	—
Due from Other Funds	3,157	130	—
Due from Component Units	202	—	—
Other Assets	—	—	12
<b>Total Assets</b>	<b><u>2,700,100</u></b>	<b><u>1,191,835</u></b>	<b><u>99,423</u></b>
<b>Liabilities:</b>			
Accrued and Other Liabilities	144	598	14
Due to Other Funds	16	—	—
<b>Total Liabilities</b>	<b><u>160</u></b>	<b><u>598</u></b>	<b><u>14</u></b>
<b>Net Assets Held in Trust for Pension Benefits</b>	<b><u>\$2,699,940</u></b>	<b><u>\$1,191,237</u></b>	<b><u>\$99,409</u></b>

<u>State Police Retirement System</u>	<u>Judges' Retirement System</u>	<u>Teachers' Defined Contribution Retirement System</u>	<u>Deputy Sheriff Retirement System</u>	<u>Total Pension Trust Funds</u>
\$ 1,293	\$ 488	\$ 22,407	\$ 2,165	\$130,550
<u>1,293</u>	<u>5,500</u>	<u>37,003</u>	<u>2,412</u>	<u>445,585</u>
<u>2,586</u>	<u>5,988</u>	<u>59,410</u>	<u>4,577</u>	<u>576,135</u>
809	2,800	19,833	2,542	220,375
—	—	—	17	2,436
<u>(51)</u>	<u>(187)</u>	<u>—</u>	<u>(173)</u>	<u>(14,207)</u>
<u>758</u>	<u>2,613</u>	<u>19,833</u>	<u>2,386</u>	<u>208,604</u>
—	59	130	1	—
<u>—</u>	<u>—</u>	<u>—</u>	<u>497</u>	<u>15,433</u>
<u>3,344</u>	<u>8,660</u>	<u>79,373</u>	<u>7,461</u>	<u>800,172</u>
58	3,497	—	2,169	479,396
178	—	7,659	264	19,140
<u>11</u>	<u>4</u>	<u>745</u>	<u>32</u>	<u>5,142</u>
<u>247</u>	<u>3,501</u>	<u>8,404</u>	<u>2,465</u>	<u>503,678</u>
3,097	5,159	70,969	4,996	296,494
<u>11,644</u>	<u>47,620</u>	<u>371,466</u>	<u>44,371</u>	<u>4,253,414</u>
<u>\$14,741</u>	<u>\$52,779</u>	<u>\$442,435</u>	<u>\$49,367</u>	<u>\$4,549,908</u>



# *INVESTMENT TRUST FUNDS*

**Investment Trust Funds** The investment trust funds account for the external portion of the State's external investment pools. The State maintains two external investment pools, the Cash Liquidity and Money Market pools. The external portion belongs to local governments and municipalities.

**Combining Statement of Fiduciary Net Assets**  
**Investment Trust Funds**  
**June 30, 2003**  
(Expressed in Thousands)

	<b>Cash Liquidity</b>	<b>Money Market</b>	<b>Total</b>
Assets			
Equity in Pooled Cash Equivalents	\$80,543	\$115,214	\$195,757
Total Assets	<u>\$80,543</u>	<u>\$115,214</u>	<u>\$195,757</u>
Net Assets:			
Held in Trust for External Investment Pool Participants	\$80,543	\$115,214	\$195,757
Total Net Assets	<u>\$80,543</u>	<u>\$115,214</u>	<u>\$195,757</u>

**Combining Statement of Changes in Plan Net Assets**  
**Investment Trust Funds**  
**For the Fiscal Year Ended June 30, 2003**  
(Expressed in Thousands)

	<b>Cash Liquidity</b>	<b>Money Market</b>	<b>Total</b>
Additions			
Deposits, Pool Participants	\$225,876	\$352,493	\$578,369
Investment Income:			
Net Appreciation in Fair Value of Investments	<u>1,259</u>	<u>1,989</u>	<u>3,248</u>
Total Additions	<u>227,135</u>	<u>354,482</u>	<u>581,617</u>
Deductions:			
Withdrawals	<u>236,318</u>	<u>362,066</u>	<u>598,384</u>
Change in Net Assets Held in Trust for External Investment Pool Participants:	(9,183)	(7,584)	(16,767)
Net Assets, Beginning of Year	<u>89,726</u>	<u>122,798</u>	<u>212,524</u>
Net Assets, End of Year	<u>\$ 80,543</u>	<u>\$115,214</u>	<u>\$195,757</u>

# *AGENCY FUNDS*

***Agency Funds*** These Funds are custodial in nature and do not involve measurement of operations. They include the following:

**Local Government** This includes two funds, the Local Government Fund and the Municipal Bond Commission, which account for taxes collected by the State that are to be remitted to respective local governments.

**Other Agency Funds** These funds are the Consolidated Investment Pool and other small agency funds which account for various assets and liabilities generated through agency relationships. These include patient and inmate funds and other amounts collected on behalf of third parties, performance bonds required by the Department of Energy and Labor, and other restricted assets held by the Governor's Office of Community and Industrial Development and the Department of Natural Resources.

## Combining Statement of Fiduciary Net Assets

## Agency Funds

June 30, 2003

(Expressed in Thousands)

	Local Government		Other Agency		
	Local Government	Municipal Bond Commission	Consolidated Investment Pool	Other Agency Funds	Total
Assets					
Current Assets:					
Cash and Cash Equivalents	\$87	\$8,608	\$ 1,603	\$14,652	\$24,950
Equity in Pooled Cash Equivalents	—	—	17,562	4,694	22,256
Receivables, Net	—	—	18	5	23
Total Assets	<u>\$87</u>	<u>\$8,608</u>	<u>\$19,183</u>	<u>\$19,351</u>	<u>\$47,229</u>
Liabilities					
Current Liabilities:					
Accounts Payable	\$ —	\$ 15	\$ 8	\$ 7	\$ 30
Due to Other Governments	87	8,593	—	—	8,680
Agency Liabilities	—	—	19,175	19,344	38,519
Total Liabilities	<u>\$87</u>	<u>\$8,608</u>	<u>\$19,183</u>	<u>\$19,351</u>	<u>\$47,229</u>

**Combining Statement of Changes in Assets and Liabilities  
Agency Funds  
For the Fiscal Year Ended June 30, 2003  
(Expressed in Thousands)**

	<b>Balance July 1, 2002</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance June 30, 2003</b>
<b>Local Government</b>				
Assets:				
Cash	\$ 620	\$1,198,452	\$1,198,985	\$ 87
Total Assets	<u>\$ 620</u>	<u>\$1,198,452</u>	<u>\$1,198,985</u>	<u>\$ 87</u>
Liabilities:				
Accounts Payable	\$ —	\$ 6,193	\$ 6,193	\$ —
Due to Other Governments	620	1,204,645	1,205,178	87
Total Liabilities	<u>\$ 620</u>	<u>\$1,210,838</u>	<u>\$1,211,371</u>	<u>\$ 87</u>
<b>Municipal Bond Commission</b>				
Assets:				
Cash	\$11,131	\$ 402,293	\$ 404,816	\$ 8,608
Total Assets	<u>\$11,131</u>	<u>\$ 402,293</u>	<u>\$ 404,816</u>	<u>\$ 8,608</u>
Liabilities:				
Accounts Payable	\$ 3	\$ 164,338	\$ 164,326	\$ 15
Due to Other Governments	11,128	566,619	569,154	8,593
Total Liabilities	<u>\$11,131</u>	<u>\$ 730,957</u>	<u>\$ 733,480</u>	<u>\$ 8,608</u>
<b>Consolidated Investment Pool</b>				
Assets:				
Cash	\$ 2,042	\$ 18,513	\$ 18,952	\$ 1,603
Equity in Pooled Cash Equivalents	21,769	6,620	10,827	17,562
Accrued Interest Receivable	37	18	37	18
Total Assets	<u>\$23,848</u>	<u>\$ 25,151</u>	<u>\$ 29,816</u>	<u>\$19,183</u>
Liabilities:				
Accounts Payable	\$ —	\$ 454	\$ 446	\$ 8
Agency Liabilities	23,848	25,597	30,270	19,175
Total Liabilities	<u>\$23,848</u>	<u>\$ 26,051</u>	<u>\$ 30,716</u>	<u>\$19,183</u>
<b>Other Agency Funds</b>				
Assets:				
Cash and Cash Equivalents	\$ 8,944	\$2,605,288	\$2,599,580	\$14,652
Equity in Pooled Cash Equivalents	4,847	316	469	4,694
Accrued Interest Receivable	8	5	8	5
Total Assets	<u>\$13,799</u>	<u>\$2,605,609</u>	<u>\$2,600,057</u>	<u>\$19,351</u>
Liabilities:				
Accounts Payable	\$ 51	\$ 1,962	\$ 2,006	\$ 7
Agency Liabilities	13,748	2,607,615	2,602,019	19,344
Total Liabilities	<u>\$13,799</u>	<u>\$2,609,577</u>	<u>\$2,604,025</u>	<u>\$19,351</u>
<b>Total - All Agency Funds</b>				
Assets:				
Cash and Cash Equivalents	\$22,737	\$4,224,546	\$4,222,333	\$24,950
Equity in Pooled Cash Equivalents	26,616	6,936	11,296	22,256
Accrued Interest Receivable	45	23	45	23
Total Assets	<u>\$49,398</u>	<u>\$4,231,505</u>	<u>\$4,233,674</u>	<u>\$47,229</u>
Liabilities:				
Accounts Payable	\$ 54	\$ 172,947	\$ 172,971	\$ 30
Due to Other Governments	11,748	1,771,264	1,774,332	8,680
Agency Liabilities	37,596	2,633,212	2,632,289	38,519
Total Liabilities	<u>\$49,398</u>	<u>\$4,577,423</u>	<u>\$4,579,592</u>	<u>\$47,229</u>

# *DISCRETELY PRESENTED COMPONENT UNITS FINANCIAL STATEMENTS*

## *Nonmajor Component Units*

**Educational Broadcasting Authority** The Authority is responsible for extending educational, cultural, and informational experiences to all citizens of the State through the construction and operation of noncommercial, educational television and radio stations and related facilities. Revenues for operations are derived primarily through private donations, with additional supplements from Federal and State grants.

**Jobs Investment Trust** The Board is responsible for improving and promoting economic development in the State. It can issue loans to businesses that will stimulate economic growth and provide or retain jobs in the State.

**West Virginia State Rail Authority** The Authority is responsible for the rehabilitation, improvement, and restoration of the financial stability of the railway system in the State, enabling it to remain a viable mode of transportation for the public sector. The Authority, empowered to issue bonds and set rates for the rail system, additionally receives Federal and State grants to supplement the cost of operations.

**Solid Waste Management Board** The Board is responsible for the improved collection and disposal of solid wastes, and for encouraging recycling, reuse, or recovery of resources from wastes. The intent of the Board is to become a viable financing mechanism for solid waste projects in West Virginia, and it is empowered to issue bonds and set rate structures at its discretion.

**Racing Commission** The Commission has full jurisdiction and supervision over all horse and dog race meetings and all persons involved in the holding or conducting of horse or dog race meetings. It can fix the annual fee for permits and registrations. Other racing taxes and fees are set by West Virginia State Code, Chapter 19, Article 23.

**Public Defenders Corporation** The Corporation is responsible for fulfilling the State's obligation to provide legal representation to eligible clients. Funding of the individual public defender corporations is by appropriation determined by the executive director of the Public Defender Services.

**Combining Statement of Net Assets  
Nonmajor Discretely Presented Component Units  
June 30, 2003  
(Expressed in Thousands)**

	<b>Educational Broadcasting Authority</b>	<b>Jobs Investment Trust</b>	<b>WV State Rail Authority</b>
Assets:			
Current Assets:			
Cash and Cash Equivalents	\$ 1,215	\$ 7,594	\$ 508
Investments	—	8,342	—
Receivables, Net	321	1,471	84
Due from Primary Government	2,679	—	451
Inventories	—	—	75
Other Assets	216	509	13
Restricted Assets:			
Cash and Cash Equivalents	—	—	—
Other Restricted Assets	—	—	—
Total Current Assets	<u>4,431</u>	<u>17,916</u>	<u>1,131</u>
Noncurrent Assets:			
Restricted Assets:			
Cash and Cash Equivalents	211	—	518
Other Restricted Assets	—	—	—
Capital Assets, Net	<u>7,806</u>	<u>1,504</u>	<u>32,650</u>
Total Noncurrent Assets	<u>8,017</u>	<u>1,504</u>	<u>33,168</u>
Total Assets	<u>12,448</u>	<u>19,420</u>	<u>34,299</u>
Liabilities:			
Current Liabilities:			
Accounts Payable	—	4	431
Accrued and Other Liabilities	—	203	130
Due to Primary Government	2	—	445
Deferred Revenue	261	—	—
Capital Leases	100	—	337
Compensated Absences	<u>216</u>	<u>—</u>	<u>65</u>
Total Current Liabilities	<u>579</u>	<u>207</u>	<u>1,408</u>
Noncurrent Liabilities:			
Liabilities Payable from Restricted Assets	—	—	—
Capital Leases	97	10,464	1,585
Compensated Absences	<u>863</u>	<u>—</u>	<u>129</u>
Total Noncurrent Liabilities	<u>960</u>	<u>10,464</u>	<u>1,714</u>
Total Liabilities	<u>1,539</u>	<u>10,671</u>	<u>3,122</u>
Net Assets:			
Invested in Capital Assets, Net of Related Debt	7,609	1,504	30,728
Restricted for Specific Component Unit Purposes	2,785	—	—
Unrestricted	<u>515</u>	<u>7,245</u>	<u>449</u>
Total Net Assets	<u>\$10,909</u>	<u>\$ 8,749</u>	<u>\$31,177</u>

<b>Solid Waste Management Board</b>	<b>Racing Commission</b>	<b>Public Defender Corporation</b>	<b>Total</b>
\$1,882	\$19,378	\$1,507	\$32,084
—	—	—	8,342
—	350	—	2,226
—	—	—	3,130
—	—	—	75
1	2	51	792
715	6,071	—	6,786
84	—	—	84
<u>2,682</u>	<u>25,801</u>	<u>1,558</u>	<u>53,519</u>
—	—	—	729
473	—	—	473
<u>43</u>	<u>31</u>	<u>574</u>	<u>42,608</u>
<u>516</u>	<u>31</u>	<u>574</u>	<u>43,810</u>
<u>3,198</u>	<u>25,832</u>	<u>2,132</u>	<u>97,329</u>
17	372	37	861
436	—	119	888
2	4	—	453
—	—	—	261
—	—	—	437
—	—	—	281
<u>455</u>	<u>376</u>	<u>156</u>	<u>3,181</u>
—	6,071	—	6,071
—	—	—	12,146
<u>44</u>	<u>173</u>	<u>511</u>	<u>1,720</u>
<u>44</u>	<u>6,244</u>	<u>511</u>	<u>19,937</u>
<u>499</u>	<u>6,620</u>	<u>667</u>	<u>23,118</u>
43	31	—	39,915
1,072	—	—	3,857
<u>1,584</u>	<u>19,181</u>	<u>1,465</u>	<u>30,439</u>
<u>\$2,699</u>	<u>\$19,212</u>	<u>\$1,465</u>	<u>\$74,211</u>



**Combining Statement of Activities**  
**Nonmajor Discretely Presented Component Units**  
**For the Fiscal Year Ended June 30, 2003**  
**(Expressed in Thousands)**

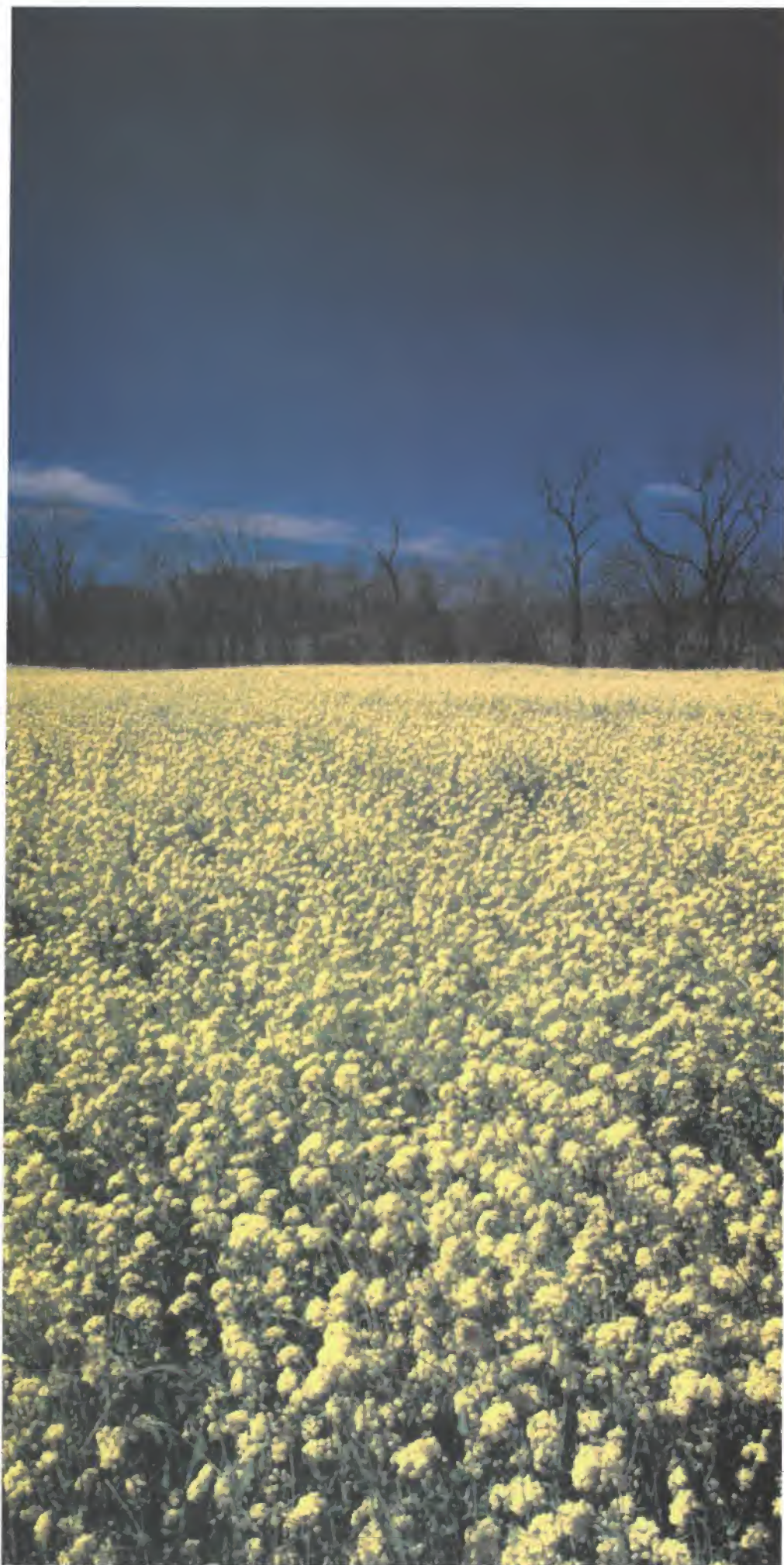
	<b>Program Revenues</b>				
	<b>Expenses</b>	<b>Charges for Services</b>	<b>Operating Grants and Contributions</b>	<b>Capital Grants and Contributions</b>	<b>Net (Expense) Revenue</b>
Component Units:					
Educational Broadcasting Authority	\$11,721	\$ 2,278	\$1,149	\$ —	\$ (8,294)
Jobs Investment Trust	969	112	—	—	(857)
WV State Rail Authority	3,507	1,717	—	91	(1,699)
Solid Waste Management Board	2,221	2,267	—	—	46
Racing Commission	17,440	19,498	—	—	2,058
Public Defender Corporation	<u>12,910</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(12,910)</u>
Total Component Units	<u>\$48,768</u>	<u>\$25,872</u>	<u>\$1,149</u>	<u>\$ 91</u>	<u>\$(21,656)</u>

<u>General Revenue</u>						
<u>Unrestricted Investment Earnings</u>	<u>Miscellaneous</u>	<u>Payments from the State of West Virginia</u>	<u>Total General Revenue</u>	<u>Change in Net Assets</u>	<u>Net Assets, Beginning of Year, as Adjusted</u>	<u>Net Assets, End of Year</u>
\$ 5	\$1,235	\$ 9,197	\$10,437	\$2,143	\$ 8,766	\$10,909
92	—	—	92	(765)	9,514	8,749
11	(173)	3,452	3,290	1,591	29,586	31,177
11	—	—	11	57	2,642	2,699
165	—	—	165	2,223	16,989	19,212
—	11	12,465	12,476	(434)	1,899	1,465
<u>\$284</u>	<u>\$1,073</u>	<u>\$25,114</u>	<u>\$26,471</u>	<u>\$4,815</u>	<u>\$69,396</u>	<u>\$74,211</u>



# **Statistical Section**

**Expenditures  
Revenues  
Bonds  
Debt Service  
Demographics  
Miscellaneous**



**Table 1**  
**Expenditures By Function**  
**All Governmental Fund Types**  
**For the Last Ten Fiscal Years**  
**(Expressed in Thousands)**

<u>Function</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
Legislative	\$ 28,901	\$ 19,740	\$ 37,860	\$ 20,056
Judicial	77,816	73,824	65,270	60,326
Executive	113,661	125,116	110,349	108,915
Administration	87,109	75,563	75,329	49,602
Commerce*	234,672	207,759	173,114	171,260
Environmental Protection*	103,566	109,677	110,616	55,949
Employment Programs*	38,401	49,146	40,101	91,720
Education	2,316,665	1,822,346	1,775,773	1,721,402
Health and Human Resources	2,709,057	2,612,846	2,322,313	2,276,733
Military Affairs and Public Safety	293,611	280,315	238,627	216,189
Tax and Revenue	40,845	26,862	100,551	82,994
Transportation	541,219	825,011	407,736	400,893
Senior Services	28,676	30,584	—	—
Miscellaneous Boards and Commissions	31,213	24,878	46,975	44,829
Capital Outlay	535,008	447,941	814,191	725,123
Debt Service	<u>136,854</u>	<u>124,576</u>	<u>115,687</u>	<u>123,080</u>
Total Expenditures - All Governmental Fund Types	<u>\$7,317,274</u>	<u>\$6,856,184</u>	<u>\$6,434,492</u>	<u>\$6,149,071</u>

Prior to fiscal year 2002, this table included expenditures of the State's governmental fund types, which included the General, Special Revenue, Debt Service and Capital Projects Funds. Beginning in fiscal year 2002, this table includes expenditures of the State's major and nonmajor governmental funds. These changes were necessary due to the implementation of GASB Statement No. 34. The comparability of 2002 expenditure amounts to the 2001 and prior amounts is affected.

\*Employment Programs and Environmental Protection were previously reported in Commerce, Labor and Environmental Resources which is now Commerce.

<u>1999</u>	<u>1998</u>	<u>1997</u>	<u>1996</u>	<u>1995</u>	<u>1994</u>
\$ 21,267	\$ 18,340	\$ 17,805	\$ 17,548	\$ 18,709	\$ 12,802
55,657	51,257	48,967	42,324	38,929	37,130
103,452	104,687	95,161	65,204	49,459	31,436
39,986	41,764	36,285	42,304	25,641	25,816
182,801	171,751	163,532	142,094	112,397	212,869
80,726	76,101	80,883	86,330	100,042	—
35,912	31,740	42,611	44,487	33,595	—
1,596,285	1,562,866	1,482,875	1,452,287	1,319,190	1,331,283
2,093,493	2,127,728	2,028,874	2,028,868	2,056,346	1,763,430
224,876	184,831	160,700	150,266	110,598	97,482
86,235	75,322	72,323	75,688	66,658	68,681
386,229	364,950	394,555	367,288	328,768	285,088
—	—	—	—	—	—
77,522	69,906	83,028	85,715	159,243	198,960
593,753	586,367	595,910	432,319	464,470	553,449
<u>134,597</u>	<u>100,143</u>	<u>98,497</u>	<u>100,945</u>	<u>92,207</u>	<u>102,612</u>
<u>\$5,712,791</u>	<u>\$5,567,753</u>	<u>\$5,402,006</u>	<u>\$5,133,667</u>	<u>\$4,976,252</u>	<u>\$4,721,038</u>



**Table 2**  
**Revenues By Source**  
**All Governmental Fund Types**  
**For the Last Ten Fiscal Years**  
**(Expressed in Thousands)**

<u>Sources</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
Taxes:					
Personal Income	\$1,038,181	\$1,049,532	\$1,023,536	\$ 985,976	\$ 917,765
Consumer Sales	917,072	922,882	878,355	878,690	852,815
Severance	193,680	187,287	194,223	169,914	180,775
Corporate Net Income	83,311	93,846	106,974	123,271	159,475
Business and Occupation	178,364	173,839	178,860	166,883	182,268
Medicaid	143,036	146,812	146,053	134,274	127,497
Business Franchise	96,555	129,457	100,551	100,465	93,744
Insurance	94,045	88,631	80,834	69,110	71,765
Other	<u>191,343</u>	<u>166,741</u>	<u>169,044</u>	<u>165,924</u>	<u>170,164</u>
Total Taxes	<u>2,935,587</u>	<u>2,959,027</u>	<u>2,878,430</u>	<u>2,794,507</u>	<u>2,756,268</u>
Department of Highways:					
Gasoline and Motor Carrier Tax	296,842	300,964	299,326	292,402	295,166
License Fees	88,967	91,373	82,333	88,517	85,446
Automobile Privilege Tax	169,431	180,472	155,623	153,927	143,356
Other	<u>6,388</u>	<u>8,345</u>	<u>438</u>	<u>437</u>	<u>300</u>
Total Department of Highways	<u>561,628</u>	<u>581,154</u>	<u>537,720</u>	<u>535,283</u>	<u>524,268</u>
Federal Grants	<u>2,868,461</u>	<u>2,733,567</u>	<u>2,527,788</u>	<u>2,284,824</u>	<u>1,959,378</u>
Other Revenue	<u>679,014</u>	<u>646,178</u>	<u>650,206</u>	<u>705,920</u>	<u>684,599</u>
Total Revenues - All Governmental Fund Types	<u>\$7,044,690</u>	<u>\$6,919,926</u>	<u>\$6,594,144</u>	<u>\$6,320,534</u>	<u>\$5,924,513</u>

Prior to fiscal year 2002, this table included revenues of the State's governmental fund types, which included the General, Special Revenue, Debt Service and Capital Projects Funds. Beginning in fiscal year 2002, this table includes revenues of the State's major and nonmajor governmental funds. These changes were necessary due to the implementation of GASB Statement No. 34. The comparability of 2002 revenue amounts to the 2001 and prior amounts is affected.

<u>1998</u>	<u>1997</u>	<u>1996</u>	<u>1995</u>	<u>1994</u>
\$ 871,803	\$ 810,350	\$ 756,367	\$ 713,563	\$ 666,325
817,406	797,575	762,927	738,547	689,899
204,891	187,997	180,238	170,773	155,677
143,716	163,210	159,239	123,363	132,698
180,475	183,393	188,920	192,707	210,459
124,458	122,439	115,510	111,987	103,053
81,036	90,675	82,197	65,323	75,046
70,349	71,061	68,818	65,087	62,264
<u>147,394</u>	<u>142,518</u>	<u>130,023</u>	<u>126,196</u>	<u>121,062</u>
<u>2,641,528</u>	<u>2,569,218</u>	<u>2,444,239</u>	<u>2,307,546</u>	<u>2,216,483</u>
291,013	275,400	268,240	276,311	275,190
84,823	77,436	79,571	76,755	79,799
134,354	126,157	120,455	123,723	111,882
<u>529</u>	<u>283</u>	<u>331</u>	<u>397</u>	<u>618</u>
<u>510,719</u>	<u>479,276</u>	<u>468,597</u>	<u>477,186</u>	<u>467,489</u>
<u>2,021,678</u>	<u>1,932,627</u>	<u>1,868,401</u>	<u>1,988,496</u>	<u>1,892,430</u>
<u>700,983</u>	<u>724,850</u>	<u>716,939</u>	<u>522,569</u>	<u>390,697</u>
<u>\$5,874,908</u>	<u>\$5,705,971</u>	<u>\$5,498,176</u>	<u>\$5,295,797</u>	<u>\$4,967,099</u>



**Table 3**

**Ratio of Outstanding General Obligation Bonds to  
Assessed Value and Net Debt Per Capita  
For the Last Ten Fiscal Years**  
(Expressed in Thousands - Except for Ratio and Per Capita Data)

<u>General Obligation Bonds</u>							
<u>For the Year Ended June 30</u>	<u>Popu- lation</u>	<u>Assessed Property Value</u>	<u>Total</u>	<u>Less Debt Service Fund</u>	<u>Net</u>	<u>Per Capita</u>	<u>Ratio of Bonds to Assessed Value</u>
2003	1,810	\$51,433,353	\$801,179	\$59,862	\$741,317	\$409.57	1.44%
2002	1,805	49,413,867	833,494	59,956	773,538	428.55	1.57%
2001	1,802	47,830,428	748,459	58,204	690,255	383.05	1.44%
2000	1,802	46,957,023	666,544	59,577	606,967	336.83	1.29%
1999	1,807	45,509,542	593,999	60,235	533,764	295.39	1.17%
1998	1,811	44,550,033	321,450	51,918	269,532	148.83	.61%
1997	1,815	42,639,651	267,165	57,050	210,115	115.77	.49%
1996	1,820	40,242,214	250,115	60,737	189,378	104.05	.47%
1995	1,821	39,319,967	233,170	62,128	171,042	93.93	.44%
1994	1,818	31,148,820	279,955	42,496	237,459	130.62	.76%

Note: All population numbers are estimates from the U.S. Census Bureau.

Source: West Virginia State Treasurer's Office, Department of Tax and Revenue, Survey of Current Business, Bureau of Economic Analysis, U.S. Department of Commerce, and West Virginia University Bureau of Business Research.

This table has been revised.

**Table 4**

**Ratio of Annual Debt Service Expenditures  
for General Bonded Debt to General Fund  
Revenues and Expenditures  
For the Last Ten Fiscal Years**  
(Expressed in Thousands)

<u>For the Year Ended June 30</u>	<u>Debt Service</u>	<u>Total Revenue</u>	<u>Ratio</u>	<u>Total Expenditures</u>	<u>Ratio</u>
2003	\$68,263	\$5,789,944	1.18%	\$5,933,970	1.15%
2002	70,524	5,615,628	1.26%	5,271,723	1.34%
2001	64,201	5,326,298	1.21%	4,886,306	1.31%
2000	69,261	5,103,826	1.36%	4,692,979	1.48%
1999	50,436	4,801,308	1.05%	4,391,088	1.15%
1998	52,428	4,750,405	1.10%	4,305,422	1.22%
1997	54,992	4,559,978	1.21%	4,140,777	1.33%
1996	54,834	4,444,846	1.23%	4,039,005	1.36%
1995	60,919	4,414,401	1.38%	4,045,711	1.51%
1994	64,370	4,967,099	1.30%	4,721,038	1.36%

**Table 5**  
**Revenue Bond Coverage**  
**For the Last Ten Fiscal Years**  
**(Expressed in Thousands)**

**Housing Development Fund\***

<u>Fiscal Year</u>	<u>Operating Revenue</u>	<u>Direct Operating Expense</u>	<u>Net Revenue Available For Debt Service</u>	<u>Current Year Debt Service Requirements</u>			
				<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Coverage</u>
2003	\$205,965	\$10,391	\$195,574	\$19,550	\$47,320	\$66,870	2.92
2002	172,139	7,434	164,705	21,595	53,329	74,924	2.20
2001	138,058	6,743	131,315	19,185	48,359	67,544	1.94
2000	127,353	6,367	120,986	16,805	46,777	63,582	1.90
1999	147,976	6,307	141,669	14,790	52,635	67,425	2.10
1998	126,659	5,355	121,304	18,130	47,745	65,875	1.84
1997	116,750	4,866	111,884	17,260	43,254	60,514	1.85
1996	111,276	3,687	107,589	17,960	43,287	61,247	1.76
1995	108,243	5,139	103,104	18,015	43,954	61,969	1.66
1994	152,132	3,665	148,467	19,432	47,756	67,188	2.21

**Solid Waste Management Board** (# These bonds were paid in full during FY 2002.)

2002	\$3,136	\$2,494	\$642	#	#	#	#
2001	2,174	1,899	275	\$90	\$217	\$307	.90
2000	2,217	1,617	600	80	224	304	1.97
1999	2,168	1,493	675	75	230	305	2.21
1998	1,786	1,834	(48)	70	236	306	(.16)
1997	1,835	1,857	(22)	65	239	304	(.07)
1996	1,808	1,662	146	60	245	305	.48
1995	1,202	633	569	55	249	304	1.87
1994	1,652	1,286	366	0	348	348	1.05

**Water Development Authority\***

2003	\$14,817	\$688	\$14,129	\$3,645	\$12,525	\$16,170	0.87
2002	19,225	629	18,596	49,340@	14,028	63,368	0.29
2001	22,525	513	22,012	3,645	15,293	18,938	1.16
2000	21,154	462	20,692	3,120	13,773	16,893	1.23
1999	18,774	494	18,280	4,285	12,063	16,348	1.12
1998	17,548	398	17,150	2,780	12,543	15,323	1.12
1997	17,291	378	16,913	2,765	12,696	15,461	1.09
1996	16,723	377	16,346	2,180	12,238	14,418	1.13
1995	16,217	346	15,871	2,075	12,156	14,231	1.12
1994	15,116	370	14,746	3,665	11,214	14,879	0.99

Parkways, Economic Development and Tourism Authority\*\*

<u>Fiscal Year</u>	<u>Operating Revenue</u>	<u>Direct Operating Expense</u>	<u>Net Revenue Available For Debt Service</u>	<u>Total Debt Service</u>	<u>Coverage</u>
2003	\$54,850	\$27,583	\$27,267	\$12,693	2.15
2002	54,821	27,366	27,455	11,240	2.44
2001	54,116	26,292	27,824	11,176	2.49
2000	54,410	26,211	28,199	11,249	2.51
1999	53,437	24,948	28,489	11,115	2.56
1998	52,898	28,330	24,568	11,125	2.21
1997	49,441	25,321	24,120	11,136	2.17
1996	47,327	24,051	23,276	11,138	2.09
1995	45,973	21,479	24,494	11,150	2.20
1994	43,032	21,147	21,885	11,157	1.96

\*Operating revenue includes revenues and principal loan repayments. Both are used for bond repayment.

@This includes retirement of revenue bonds.

\*\*Only total debt service available.

Note: Information is unavailable for Higher Education revenue bonds.

Source: Water Development Authority, Housing Development Fund, Solid Waste Management Board, and Parkways, Economic Development and Tourism Authority.

**Table 6**  
**Demographic Statistics**  
**For the Last Ten Calendar Years**

<u>Calendar Year</u>	<u>Total Population</u>	<u>Per Capita Personal Income</u>	<u>Unemployment Rate</u>	<u>Median Age</u>
2002	1,802,000	\$23,688	6.1%	39.7
2001	1,801,000	22,881	4.9%	39.3
2000	1,807,000	21,861	5.5%	38.9
1999	1,812,000	20,691	6.6%	38.9
1998	1,817,000	20,234	6.6%	38.6
1997	1,819,000	19,351	6.9%	38.1
1996	1,823,000	18,527	7.5 %	37.7
1995	1,824,000	17,882	7.9 %	37.3
1994	1,820,000	17,395	8.9 %	37.0
1993	1,818,000	16,712	10.9 %	36.6

Source: Bureau of Employment Programs, West Virginia Development Office, U.S. Bureau of Economic Analysis and Bureau of the Census.

This table has been revised.

**Table 7**  
**Economic Characteristics**  
**For the Last Ten Calendar Years**

<u>Calendar Year</u>	<u>Gross State Product</u>	<u>Personal Income</u>
2002	\$43,659,000,000	\$42,682,000,000
2001	42,368,000,000	41,230,000,000
2000	40,926,000,000	39,506,000,000
1999	40,525,000,000	37,488,000,000
1998	39,024,000,000	36,738,000,000
1997	38,281,000,000	35,202,000,000
1996	37,220,000,000	33,771,000,000
1995	36,315,000,000	32,611,000,000
1994	34,774,000,000	31,666,000,000
1993	32,240,000,000	30,375,000,000

Source: U.S. Bureau of Economic Analysis, West Virginia University Bureau of Business Research.

This table has been revised.

**Table 8****Property Values, Retail Sales,  
Bank Deposits, and Bank Loans  
For the Last Ten Calendar Years**

(Expressed in Millions, Except for Bank Number Data)

<u>Calendar Year Ended</u>	<u>Assessed Property Values</u>	<u>Retail Sales</u>	<u>Banks</u>			
			<u>Number</u>	<u>Deposits</u>	<u>Loans</u>	<u>Assets</u>
2002	\$51,433	\$16,200	76	\$15,876	\$11,559	\$20,294
2001	49,414	15,300	75	14,317	10,810	18,117
2000	47,830	15,000	70	13,844	11,291	17,455
1999	46,957	14,619	82	17,291	14,792	23,088
1998	45,509	15,077	89	18,758	15,518	23,552
1997	44,550	14,484	100	17,452	13,408	21,590
1996	42,640	14,177	113	18,011	14,742	22,267
1995	40,242	13,616	118	17,138	13,481	21,265
1994	39,320	13,056	122	16,561	12,315	20,238
1993	31,149	11,586	148	16,575	11,101	19,881

Source: West Virginia Department of Tax and Revenue and West Virginia Division of Banking, and U.S. Department of Commerce.

**Table 9**

**Twenty-five Largest Private Sector Employers in West Virginia**

Company

1. Wal-Mart Associates, Inc.
2. West Virginia University Hospitals/United Health System
3. Charleston Area Medical Center, Inc.
4. Kroger Company
5. Weirton Steel Corporation
6. CSX Corporation
7. E. I. DuPont de Nemours and Company
8. Verizon
9. Allegheny Energy Service Corporation
10. St. Mary's Hospital
11. American Electric Power
12. Wheeling Hospital, Inc.
13. Eldercare Resources Corporation
14. Rite Aid of West Virginia, Inc.
15. Res-Care, Inc.
16. Consolidation Coal Company
17. CDG Management, LLC
18. K-Mart Corporation
19. Cabell Huntington Hospital, Inc.
20. Pilgrim's Pride Corporation
21. BB&T Corporation
22. Lowe's Home Centers, Inc.
23. Mountaineer Park, Inc.
24. Camden-Clark Memorial Hospital
25. Bob Evans Farms, Inc.

Source: West Virginia Bureau of Employment Programs, Office of Labor and Economic Research.

**Table 10****Miscellaneous Public Education Statistics  
For the Last Ten School Years**

<u>School Year</u>	<u>Number of Schools</u>	<u>Net Enrollment</u>	<u>Number of Teachers</u>	<u>Pupil- Teacher Ratio</u>
2002-03	794	281,591	19,925	14.1
2001-02	808	282,232	19,986	14.1
2000-01	818	285,785	20,764	13.8
1999-00	824	290,944	20,923	13.9
1998-99	834	296,559	20,849	14.2
1997-98	839	301,314	20,819	14.5
1996-97	867	304,424	20,888	14.6
1995-96	873	307,508	20,915	14.7
1994-95	884	311,008	20,869	14.9
1993-94	901	313,997	21,048	14.9

<u>Expenditure on Education Per Pupil in Daily Attendance</u>				<u>% Revenue From State Government</u>		
<u>School Year</u>	<u>U.S.</u>	<u>WV</u>	<u>WV Rank</u>	<u>U.S.</u>	<u>WV</u>	<u>WV Rank</u>
2002-03	\$8,383	\$9,757	12	49.6%	59.7%	13
2001-02	8,087	9,056	14	50.1%	60.1%	14
2000-01	7,640	8,440	16	50.2%	60.1%	14
1999-00	7,316	7,992	16	50.2%	60.8%	13
1998-99	6,251	6,887	14	49.8 %	62.2 %	13
1997-98	6,548	7,110	14	49.1 %	61.6 %	11
1996-97	6,335	6,902	14	48.7 %	62.8 %	12
1995-96	6,133	6,556	15	48.1 %	62.8 %	11
1994-95	5,894	6,285	16	46.0 %	64.2 %	8
1993-94	5,717	5,902	18	46.0 %	64.6 %	5

Source: West Virginia Department of Education and National Education Association (NEA), "Rankings of the States;"  
West Virginia Research League.

This table has been revised.



**Table 11**  
**Miscellaneous Higher Education Statistics**  
**For the Last Ten School Years**

**Public Institutions**

<u>School Year</u>	<u>Net Enrollment</u>	<u>Degrees Awarded</u>		
		<u>Undergraduate</u>	<u>Graduate</u>	<u>Total</u>
2002-03	81,080	9,927	2,912	12,839
2001-02	78,315	9,632	2,670	12,302
2000-01	76,050	9,439	2,825	12,264
1999-00	76,751	9,277	2,831	12,108
1998-99	76,307	9,206	2,818	12,024
1997-98	75,920	9,057	2,918	11,975
1996-97	74,836	9,197	2,626	11,823
1995-96	74,816	9,484	2,549	12,033
1994-95	76,064	9,610	2,667	12,277
1993-94	77,488	10,084	2,409	12,493

**Private Institutions**

<u>School Year</u>	<u>Net Enrollment</u>	<u>Degrees Awarded</u>		
		<u>Undergraduate</u>	<u>Graduate</u>	<u>Total</u>
2002-03	11,034	2,188	149	2,337
2001-02	10,066	1,860	161	2,021
2000-01	9,808	1,758	167	1,925
1999-00	9,837	1,761	162	1,923
1998-99	10,064	1,857	173	2,030
1997-98	10,271	1,796	196	1,992
1996-97	10,156	1,658	136	1,794
1995-96	10,366	1,799	122	1,921
1994-95	10,193	1,728	125	1,853
1993-94	10,451	1,756	116	1,872

Source: Higher Education Policy Commission and National Education Association.

**Table 12****Miscellaneous Statistics****June 30, 2003**

Date of Statehood	June 20, 1863
Form of Government	Constitutional Representative Government
Branches of Government	Legislative - Executive - Judicial
Land Area	24,282 square miles
Miles of State Highway	34,610
State Police Protection:	
Number of State Police Detachments	71
Number of State Police Troopers	627
Higher Education (State Supported):	
Number of Campuses	27
Number of Students	81,080
Recreation:	
Number of State Parks	36
Area of State Parks	75,862 acres
Number of State Forests	9
Area of State Forests	79,011 acres
Number of Rail Trails	2
Distance of Rail Trails	137 miles
Wildlife Fish and Game Management Areas	71
Acreage of Wildlife Management Areas (Owned and Leased)	355,535 acres

Source: Division of Highways, Division of Public Safety, Higher Education Policy Commission and Division of Natural Resources.

